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ABSTRACT

Options for states in addressing questions relating to use of the Title III dislocated worker program of the Job Training Partnership Act are discussed. Two broad subjects are emphasized: short-term actions for aiding workers and communities suffering from economic dislocation and longer-term strategies to integrate displaced worker employment and training efforts into economic policy and program planning. The macroeconomic context is discussed, and broad economic trends are related to policy decisions state planners face. Key areas in which states can exercise discretion as regards Title III are discussed, including allocating funds, defining program activities, defining the eligible population, and defining matching funds. Other resources that the state can organize as well as broker are suggested. Two categories of mitigation are discussed: assistance to workers (retraining, job searching assistance, counseling and supportive services, relocation and job development, work sharing) and assistance to communities (short-term crisis intervention, technical assistance, adapting institutions to needs). Alternatives for building dislocated worker programs into a longer-term economic development policy are examined, including improving labor market information systems, exploring comprehensive state plant closing legislation, improving overall work force quality, retaining viable firms through employee ownership, and increasing the rate of new business formation. (YLB)

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THE ROLE OF TRAINING IN A CHANGING ECONOMY

NATIONAL GOVERNORS' ASSOCIATION
OCTOBER 25, 1983

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I. INTRODUCTION

The problems of plant closings and mass layoffs afflict different states to vastly differing degrees. As the national unemployment rate slowly recedes from its post-Depression peak of 10.8% in December 1982, layoffs are decreasing. Indeed, as the economy improves, those states with low unemployment may be more concerned about labor shortages than about the phenomenon of that most recent addition to the lexicon of labor economics--the "dislocated worker."

Yet despite improvements in some areas, worker displacement is still a serious problem in many states and may pose difficulties for others in the future. And as is too often the case with federal aid, the major new federal program to assist dislocated workers--Title III of the Job Training Partnership Act--is only now getting into full swing. Moreover, Title III resources have thus far been inadequate for hard hit states to mount a significant statewide effort. The initial funding of $25 million in February 1983 was augmented by another $85 million under the Emergency Jobs Act in April, yet the combined allocation was still under $500,000 for more than a third of all states.

The situation could improve significantly next year. Fiscal year 1984 funding--a proposed $223 million--would more than double the 1983 amount and would likely finance a workable program. Such funds would arrive at the same time states must assume full responsibility for management of all JTPA programs--the beginning of fiscal year 1984.

Given this responsibility, how should states evaluate the importance and utility of the Title III dislocated worker program? And how should limited staff and other resources be allocated to Title III, versus statewide JTPA management, with its comparatively greater responsibilities?

The answers depend primarily on:

- whether a state interprets its role under Title III broadly or narrowly, and
- a state's perception of the magnitude of its dislocated worker problem.

Within these two broad areas a host of sub-issues must be addressed, including:

- who are dislocated workers?
- how and to whom should Title III funds be distributed?
- how should the federal requirement for matching funds be handled?
- what services do workers and communities need?
- to what extent can or should Title III fit into a broader economic adjustment policy?

This paper discusses options for states in addressing these and related questions. It is impossible to present definitive answers; conditions vary dramatically among states and there is anything but consensus on the issues involved. The paper emphasizes two broad subjects: (1) short-term actions for aiding workers and communities suffering from economic dislocation, and (2) longer-term strategies to integrate displaced worker employment and training efforts into economic policy and program planning.

Section II discusses the macro-economic context in which these issues need to be considered, and relates broad economic trends to policy decisions state planners face. It examines, for example, the impact of the rise of the service sector and demise of the manufacturing sector and what types of jobs will be in demand in the future. This section also looks at some of the pitfalls of an over-emphasis on the much sought after "high-tech" jobs. Such analyses of these and other short- and longer-term trends are intended to aid state policymakers in making choices about how to allocate and use scarce resources--both Title III and others.

Section III examines broad policy decisions. The federal government is now turning over to the states: how to allocate funds, and how to define program activities, eligibility, and matching funds. Although states can choose not to interpret the JTPA statute and allow localities to proceed under the general--and ambiguous--statutory provisions, this approach will probably only work for the short term. Ultimately, states will be forced to reconcile the ambiguities. And while too many state-imposed detailed procedural and operational rules could lead to administrative nightmares reminiscent of CETA, it is advisable for states to lay out basic "input" and "output" standards: who should be served and what the desirable outcomes should be. These standards should be fashioned around an economic adjustment and development policy.

The focus of Section IV is "mitigation strategies"; that is, actions states can take to lessen the harmful effects of dislocation by using Title III funds and leveraging other resources. Though there is limited empirical research on the effectiveness

of various services (retraining, job search assistance, support services, relocation assistance), that which does exist provides valuable insights in designing programs. For example, experience from the country's oldest and largest publicly-funded dislocated worker program--the Downriver Project in Michigan--shows that vocational education courses can be substantially redesigned to meet specific client needs without diminishing academic achievement. This experience also demonstrates the need for better labor market information to improve placement.

Section V examines alternatives for building dislocated worker programs into a longer-term economic development policy, including: the use of Employee Stock Ownership Plans (ESOPs) and other types of worker participation to prevent some plants from closing; increasing the rate of new business formation, which is essential to economic growth; improving labor market information systems; and improving overall work force quality.

II. THE U.S. ECONOMY IN TRANSITION

A. The Major Transformations

Most policy analysts agree that the United States is in the midst of a profound and wrenching economic transformation. The economic landscape is being altered by four major shifts: from an industrial to an informational economy; from an insular national economy to an interdependent global one; from a cheap and abundant supply of natural resources to an expensive and constricting supply; and from a rapidly expanding labor force to one with a slow growth rate and changing composition.

Whether these transformations will cause widespread hardship and declining living standards for American citizens is an issue of intense national debate. Those who doubt their negative impact recall the "phantom" automation crisis of the 1960s, when it was predicted that new technology would render millions of workers unemployed--a crisis that never materialized (until the 1980s!). Others argue that today's technological revolution will severely hurt certain groups of workers--particularly in declining industries.

These arguments are more than merely academic. State planners and policymakers need to evaluate the impact of these trends on their own economies to make informed decisions in allocating scarce resources. For, while economic adjustment can cause hardships for workers and communities, the projected shifts also can create new opportunities for employment and growth in states prepared to exploit change.

1. The Rise of the Service Sector

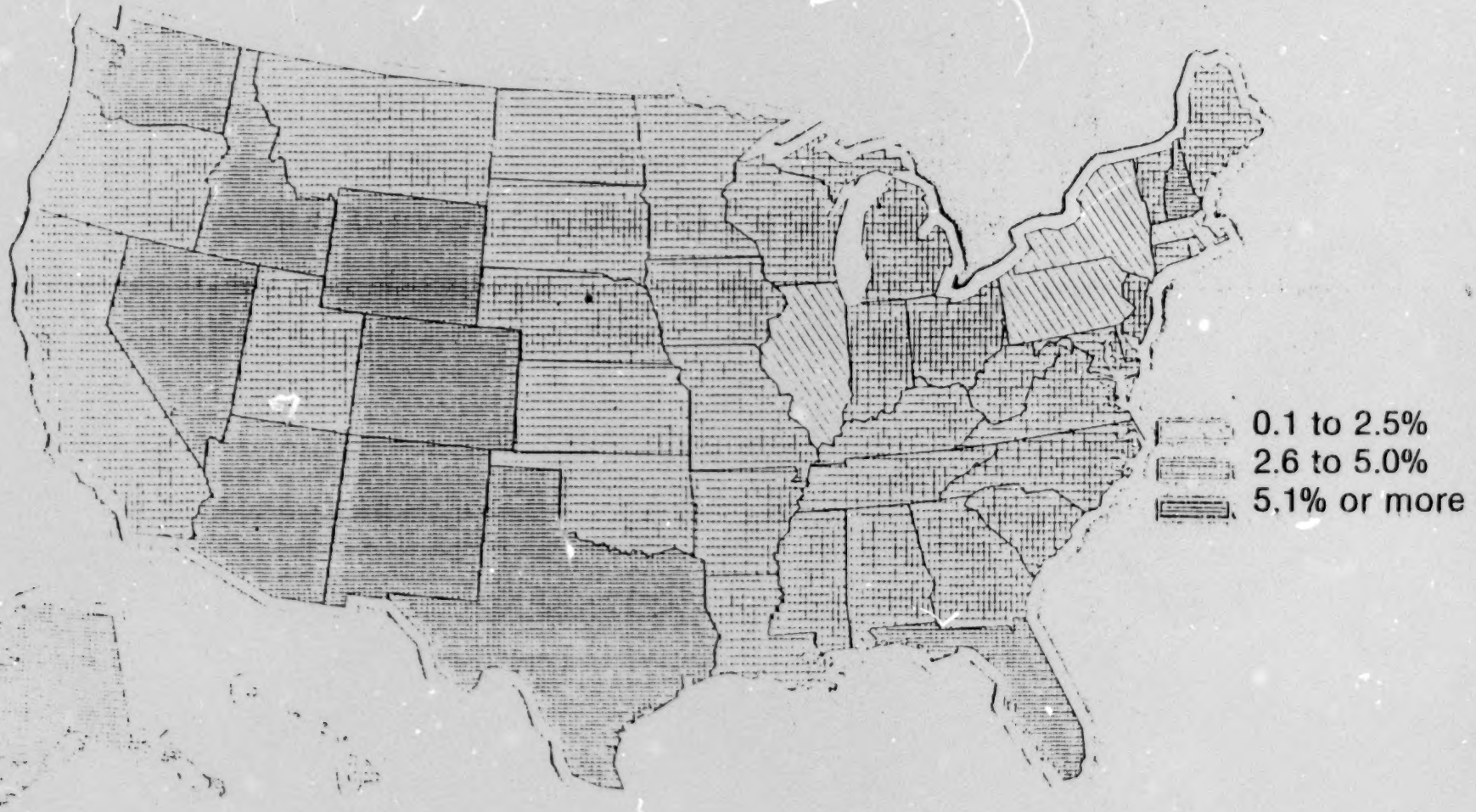
The U.S. economy is undergoing a dramatic shift from a reliance on manufacturing to service industries, particularly information services and those using advanced technologies. Between 1970 and 1980, 19 million new jobs were added to the U.S. economy: 95% were in the service sector. Economists Barry Bluestone and Bennett Harrison estimate that during the same period, between 32 and 38 million jobs were lost as a result of plant shutdowns or "runaway shops." The California Employment Development Department believes the 93,000 manufacturing jobs were lost in 562 in-state closures between February 1980 and April 1983.

During the last decade, job creation and job loss were not uniform across all states. Areas of high unemployment correlate, to a large extent, with areas that have had a high concentration of manufacturing employment. An analysis by the Bureau of Labor Statistics illustrates the trends graphically. The following map shows overall employment changes during 1970-80. States with the lowest growth (2.5 percent or less per year) are confined to the belt of older industrial states, stretching from Iowa to Massachusetts. Most states fall into the middle category of growth rates between 2.6 and 5.0 percent. Job creation was greatest in the Western states, and Florida, coincident with population growth, energy exploration, and increased demand for consumer and producer services.

Changes in manufacturing employment during the 1970s also show a distinct regional pattern. The same belt of states which experienced the slowest overall growth had declines in the manufacturing sector, as can be seen by the next map. Manufacturing accounted for one-fifth to one-third of nonfarm employment in almost all of these older manufacturing areas, dominated by "heavy" industry--auto, steel, machinery, tires, and the like. This is in marked contrast with the emerging lighter manufacturing centers in Florida and the Southwest, where employment gains have been in electronics, instruments, petroleum refining, and other high technology industries.

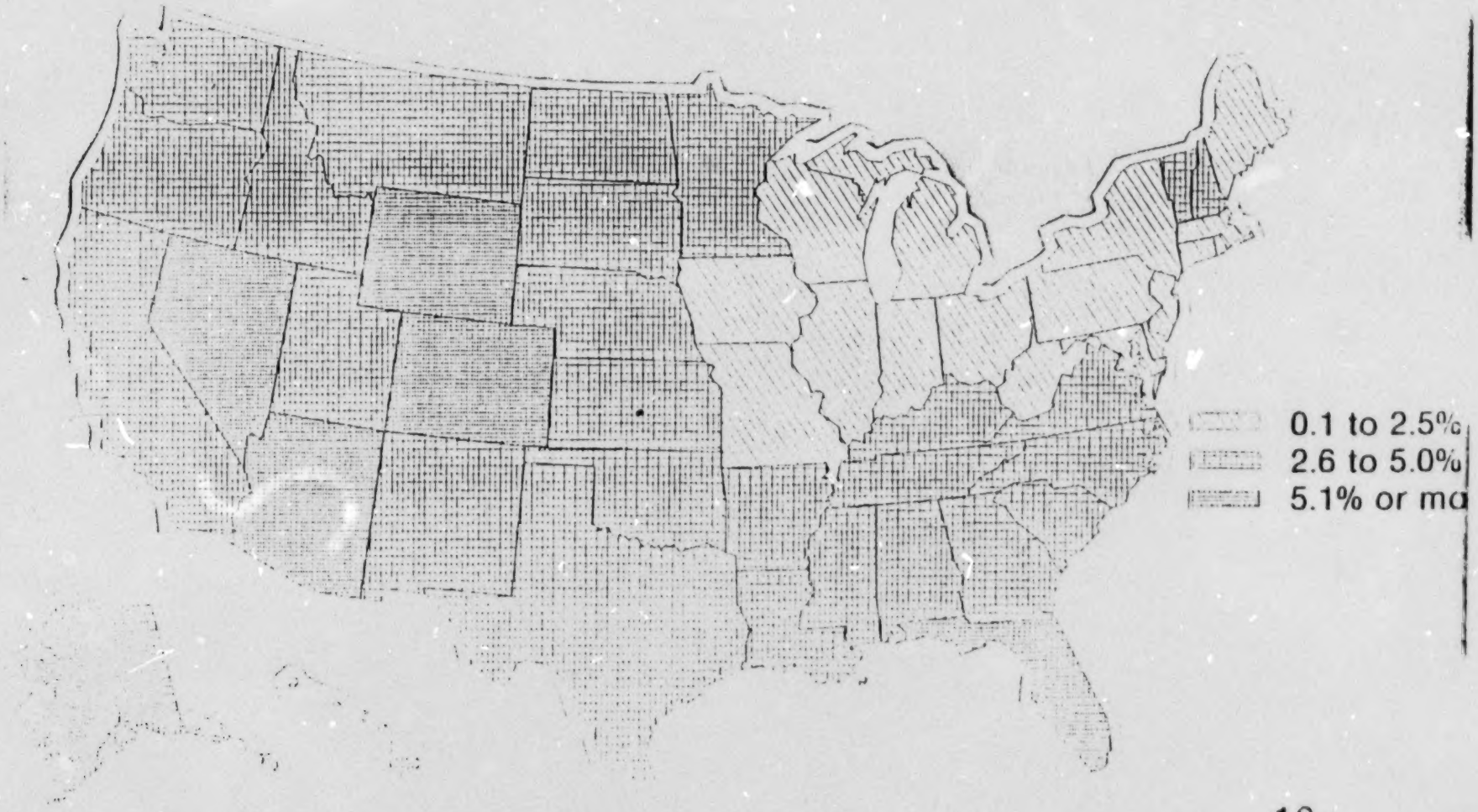
Expansion of service-related employment also shows distinct regional patterns, as shown by the map. Most of the growth was in the Southwestern and Western states. Overall, legal, business, and health industries increased at $2^1/_2$ to 3 times the average for all industries.

Private Service-Producing Industries Employment Change, 1970-1980

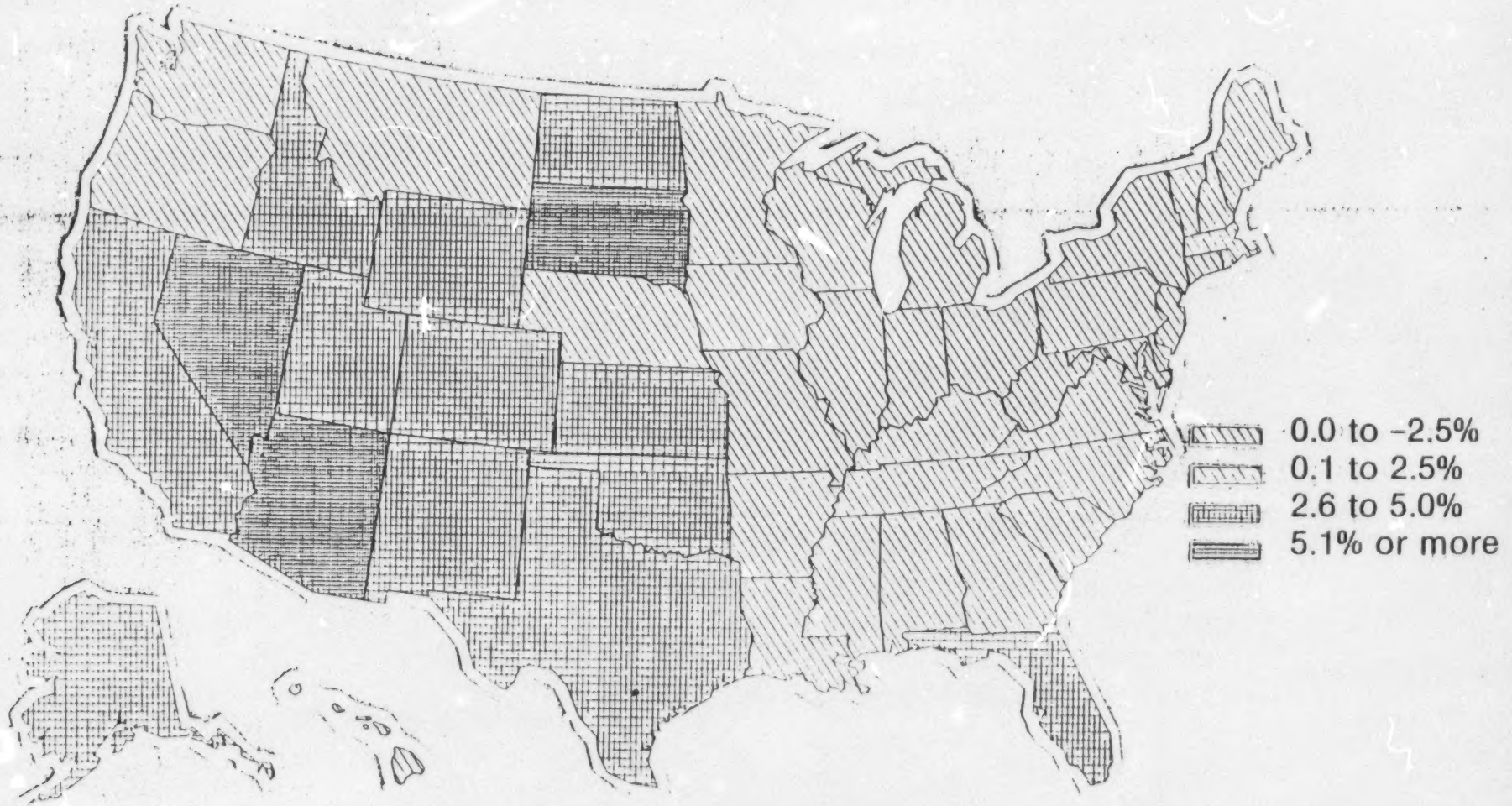


Source: Bureau of Labor Statistics

5. Total Nonagricultural Employment Change, 1970-1980



8. Manufacturing Employment Change, 1970-1980



Source: Bureau of Labor Statistics

The shifts in our economy are projected to accelerate in the 1980s. By 1990, 72 percent of the labor force, over 89 million workers, is projected to work in service-producing industries.[1]

2. Increasing International Interdependence

Related to the decline in manufacturing is the increasing interdependence of the United States and other world economies. The U.S. lead in manufacturing was founded on industrial processes which produced large quantities of standardized products. But today the edge is with countries that can produce the same--or higher quality--goods more cheaply. U.S.-produced autos, steel, tires, and consumer electronic equipment, for example, are increasingly losing out in the world market. Even computers and other "high-tech" equipment are facing stiff foreign competition, in both their development and manufacturing. There is concern that Japan will be first in the market with the next generation of computers, and the move of Atari from California to Taiwan and Hong Kong, with the loss of 1,700 production jobs, has been widely seen as a grim harbinger.

There is considerable disagreement over whether the U.S. should try to regain a competitive advantage in traditional industries or shift into new areas. Protectionist proposals to preserve dying industries--and the well-paying, generally unionized jobs that go with them--are currently making little headway. Instead, arguments center on whether the adjustment process should be eased through public intervention, or whether "free market" should be allowed to operate unfettered. In either case, some workers and communities will experience hardship--either temporarily or longer-term.

3. The Changing Resource Economics

The economics of natural resources is also changing drastically. Resources once cheap and abundant are becoming increasingly scarce. The most dramatic example is petroleum, but new economic shocks are predicted in other areas too, such as water.

Increasingly limited supplies of natural resources raise the spectre of conflicts between environmental quality and conservation on the one hand, and jobs and economic vitality on the other. However, resource constraints can also spawn new industries--resource management, renewable energy, new conservation techniques, waste recycling, sustained yield agriculture and forestry, for example. It can be argued that sustainable economic

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[1] National Commission on Employment Policy, 8th Annual Report, December 1982, p.9.

growth in an age of declining natural resources must be based on prudent resource management, and that neglecting these issues will undermine other efforts at economic security. And in fact, the alternative energy industry could be one of the fastest growing of the 1980s, with conservation leading the way. According to the investment firm of Hambrecht and Quest, we can expect the industry as a whole to grow over ten-fold, to a $50-60 billion level, by the 1990s as companies in the industry reduce system costs and identify site-specific applications compatible with renewable energy sources.

4. The Changing Labor Force

Basic demographic changes, economic factors and the accelerated movement of women into the workforce will have substantial effects on labor supply during the 1980s. These are the major trends:

- The labor force will grow more slowly. The projected growth rate of 1.5% in the 1980s is about half that of the 1970s. This is primarily due to the decline of young new entrants--the baby boom population bulge has already moved into the workforce.
- The labor force is aging. The U.S. population in the 16-24 year age range peaked in 1980, with about 26 million in the labor force. By 1990 that number will have declined to about 24 million.
- The share of minorities entering the labor force is increasing. Minorities will represent 20-25% of growth during the 1980s, compared with 10% during the 1970s. While the number of 16-24 year olds in the labor force is expected to decrease by 9 percent for whites, it is expected to increase by about one percent for blacks and other minorities.
- The percentage of women entering the labor force is expected to grow, although at a slower rate than during the 1970s. Of a total 18 million persons projected to enter the labor force during the 1980s, twice as many will be women (12 million) as men (6 million).
- Finally, the labor force is becoming better educated--at least in terms of years of schooling completed. The proportion of workers who did not have a high school diploma shrank from about 40 percent in 1965 to about 20 percent in 1980. The proportion of workers who have completed at least 4 years of college has risen from 8 percent in 1952 to 24 percent in 1983. Between 1970 and 1980 employment of college graduates grew 84 percent. However, because occupations requiring a professional degree did not grow rapidly enough to

absorb them, about 1 in 5 graduates took jobs that did not require a degree for entry. The Bureau of Labor Statistics reports that a surplus of between 2 and 3 million college graduates is expected to enter the labor force during the 1980s.[2]

The changes described throughout this section are at the root of the economic dislocation now underway. State planners and policy-makers must ask: What are the specific implications of these trends, particularly in terms of developing strategies for dislocated worker assistance programs?

B. Economic Dislocation and Worker Adjustment

Even as the economy improves, unemployment will persist and economic adjustment measures will be required to ease the transition. Developing a careful short-term strategy for worker dislocation will enable a state to lay the groundwork for a longer-term strategy to equip the workforce for the labor demands of the future.

Some considerations in designing both short- and long-term strategies include:

- How can dislocation-induced problems be distinguished from recession-induced problems, or should they be?
- What are the occupational demand implications of declining industries versus rising industries?
- What is the significance of the high-tech revolution for public training programs?
- What do these trends mean for JTPA Title III planning, considering the statutory provisions on program design (described below) and the level of resources available?

1. The Nature and Magnitude of Economic Dislocation

Each state must assess the severity of the worker dislocation problem in its own communities and labor force. This will partially depend on how the problem is defined. Because JTPA defines "dislocated worker" very broadly, states have substantial discretion in defining the target group. This decision is an important one, since it will affect how resources are allocated and what services are provided.

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2 Occupational Outlook Quarterly, "The Job Outlook for College Graduates During the 1980s," Summer 1982, p. 7.

Estimates of the number of dislocated workers nationwide range from under 100,000 to over 4 million, depending on the definition. The most widely cited source is a 1982 Congressional Budget Office report, which provides estimates based on two definitions. The narrow definition includes only workers who lost jobs in a declining industry and who have been jobless for at least six months. By this yardstick, there were 100,000 to 150,000 dislocated workers at the beginning of 1983. Using a less restrictive definition that includes all displaced workers in all declining industries and geographic areas brings the estimate up to between 1.7 and 2.1 million people.

In a paper examining the magnitude of the displaced worker problem, Marc Bendick and Judith Devine of the Urban Institute made a significant finding. They discovered that unemployment in a declining industry or a declining occupation did not increase the probability of long-duration unemployment. On the other hand, workers residing in a declining region were more likely to experience long-term unemployment.[3] Patricia Hogue, Director of the National Commission on Employment Policy, makes the same argument: regional, rather than occupational or industrial, factors are most closely associated with long-term unemployment. She reported in March 1983 that the six states in the industrial East and Midwest had more than half of those unemployed six months or more.[4]

It is often difficult to distinguish permanent dislocation cutbacks due to recession. The county unemployment maps show the impact of the 1980-1982 recession on different regions. For 1979, the most recent non-recession year, the national unemployment rate was 5.8 percent, but county rates ranged from a high of 40 percent to a low of less than 1 percent. More important, as the recession progressed, unemployment radiated outward from areas of high concentrated unemployment to the surrounding areas.

Is it necessary to distinguish between recession-induced and dislocation-induced problems? In defining "dislocated worker," some states need not make such a distinction. National patterns indicate that Title III resources may best be targeted geographically, to particular communities, or even plants. This choice might be obvious in states where massive layoffs have occurred or closings by very large employers. In states with fewer layoffs and closings, targeting of resources is still reasonable, to the

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3 Marc Bendick, Jr., and Judith Radlinski Devine, "Workers Displaced by Economic Change: Is There Need for Federal Employment and Training Assistance?", The Urban Institute, August 198[illegible]

4 Speech before the Interstate Conference of Employment Security Agencies, March 24, 1983.

extent concentrations of high unemployment can be identified at the county or community level.

2. Preparing Tomorrow's Workforce: The Need for Economic Adjustment Measures

Just as there is little consensus on what a dislocated worker is, there is little agreement on what the effects of the major economic transformations will have on economic and human resource planning. A popular response has been to pursue high technology industries. One high-tech executive observed that "We are the Brooke Shields of the economy." While the notion that all states can "win" by luring high-tech firms has been largely de-bunked, it is still widely believed that the solution to worker re-adjustment is turning laid-off auto and steel workers into computer technicians. But even here, there is growing dissension as the issues are examined more carefully.

Two major trends are critical in projecting the growth occupations of the 1980s: the increasing share of service sector jobs, and the increasing use of advanced technology in both production and service industries. No one really knows, however, whether these trends will result in and economy that needs more or fewer highly trained workers. Opinions vary for several reasons. First, job growth can be analyzed from the perspective of increases in the rate of growth or of increased number of jobs. Table I shows projected percent growth, 1978 to 1990, in the 20 fastest growing occupations--most of which would be considered high technology or are occupations that require advanced education. Table II shows the occupations with the largest increase in number of openings, projected for the same period. Most of these are regarded as neither high technology, nor requiring high skills levels. Finally, Table III shows the occupations in which half of all new jobs will be generated during the 1980s. While almost all are in service industries, few require high skill levels and most are not "high-tech." Thus, states should proceed cautiously before rushing to design high technology training courses for dislocated workers.

Admittedly these are national projections, and job demand will vary among states and localities. In one case, a retraining program for laid-off auto workers in San Jose, California--near "Silicon Valley"--appears successful. Yet in the largest federally-sponsored retraining program, the Downriver Project near Detroit, the least successful retraining courses were two computer and data processing classes. (These examples are discussed more fully in Section IV.)

FASTEST GROWING OCCUPATIONS THAT GENERALLY REQUIRE POSTSECONDARY EDUCATION AND TRAINING (BUT LESS THAN A BACHELOR'S DEGREE)

OCCUPATION	PERCENT CHANGE IN EMPLOYMENT, 1980-90	EMPLOYMENT, 1980 (IN THOUSANDS)
PARALEGAL PERSONNEL	109-139	32
DATA PROCESSING MACHINE MECHANICS	93-112	83
COMPUTER OPERATORS	72-83	185
OFFICE MACHINE AND CASH REGISTER SERVICERS	60-73	55
TAX PREPARERS	49-70	31
EMPLOYMENT INTERVIEWERS	47-64	58
PERIPHERAL EDP EQUIPMENT OPERATORS	44-52	49
TRAVEL AGENTS AND ACCOMMODATIONS APPRAISERS	43-52	52
CLAIMS AGENTS	43-46	40
BRICKMASONS	40-51	146
NURSES, PROFESSIONAL	40-47	1,104
SURGICAL TECHNICIANS	39-45	32
DENTAL HYGIENISTS	39-42	61
HEALTH RECORDS TECHNOLOGISTS	38-44	32
CONCRETE AND TERRAZZO FINISHERS	37-47	113

SOURCE: BUREAU OF LABOR STATISTICS

FASTEST GROWING OCCUPATIONS FOR WHICH A HIGH SCHOOL DIPLOMA OR LESS IS ADEQUATE PREPARATION

OCCUPATION	PERCENT CHANGE IN EMPLOYMENT, 1980-90	EMPLOYMENT, 1980 (IN THOUSANDS)
FOOD PREPARATION AND SERVICE WORKERS, FAST FOOD RESTAURANTS.....	50-57	806,000
CORRECTION OFFICIALS AND JAILERS.....	47-49	103,000
NURSES' AIDES AND ORDERLIES.....	43-53	1,175,000
PSYCHIATRIC AIDES.....	40-46	82,000
DENTAL ASSISTANTS.....	39-42	139,000
PAINTERS, AUTOMOTIVE.....	38-44	41,000
CLAIMS CLERKS.....	36-42	68,000
DRY WALL APPLICATORS.....	35-46	52,000
CHILD CARE ATTENDANTS.....	35-45	41,000
INSURANCE CLERKS, MEDICAL.....	35-41	29,000
TAPERS (DRY WALL).....	34-44	32,000
WELFARE SERVICE AIDES.....	34-39	95,000
STATEMENT CLERKS.....	34-38	33,000
HOUSEKEEPERS, HOTEL AND MOTEL.....	33-46	50,000
WASHERS, MACHINE AND STARCHERS (LAUNDERING, DRYCLEANING).....	33-46	59,000

SOURCE: BUREAU OF LABOR STATISTICS

FASTEST GROWING OCCUPATIONS REQUIRING A BACHELOR'S DEGREE

OCCUPATION	PERCENT CHANGE IN EMPLOYMENT, 1980-90	EMPLOYMENT, 1980 (IN THOUSANDS)
COMPUTER SYSTEMS ANALYSTS.....	68-80	205
PHYSICAL THERAPISTS.....	51-59	34
COMPUTER PROGRAMMERS.....	49-60	228
SPEECH AND HEARING CLINICIANS.....	47-50	35
AERO-ASTRONAUTIC ENGINEERS.....	43-52	68
ECONOMISTS.....	42-50	29
DIETITIANS.....	38-46	44
ELECTRICAL ENGINEERS.....	35-47	327
MEDICAL LABORATORY TECHNOLOGISTS.....	34-42	105
ARCHITECTS.....	33-41	80
VETERINARIANS.....	31-41	36
LAW CLERKS.....	30-47	33
GEOLOGISTS.....	30-38	40
MECHANICAL ENGINEERS.....	29-41	213
PSYCHOLOGISTS.....	29-35	82

SOURCE: BUREAU OF LABOR STATISTICS

THE FOLLOWING OCCUPATIONS WILL ACCOUNT FOR 50 PERCENT OF ALL NEW JOBS GENERATED DURING THE 1980'S

OCCUPATION	GROWTH IN EMPLOYMENT 1/ 1980-90 (IN THOUSANDS)
SECRETARIES	700
NURSES' AIDES AND ORDERLIES	508
JANITORS AND SEXTONS	501
SALES CLERKS	479
CASHIERS	452
NURSES, PROFESSIONAL	437
TRUCK DRIVERS	415
FOOD SERVICE WORKERS, FAST FOOD RESTAURANTS	400
GENERAL CLERKS, OFFICE	377
WAITERS AND WAITRESSES	360
ELEMENTARY SCHOOL TEACHERS	251
KITCHEN HELPERS	231
ACCOUNTANTS AND AUDITORS	221
HELPERS, TRADES	212
AUTOMOTIVE MECHANICS	206
BLUE-COLLAR WORKER SUPERVISORS	206
TYPISTS	187
LICENSED PRACTICAL NURSES	185
CARPENTERS	173
BOOKKEEPERS, HAND	167
GUARDS AND DOORKEEPERS	153
STOCK CLERKS, STOCKROOM AND WAREHOUSE	142
COMPUTER SYSTEMS ANALYSTS	139
STORE MANAGERS	139
PHYSICIANS, MEDICAL AND OSTEOPATHIC	135
MAINTENANCE REPAIRERS, GENERAL UTILITY	134
COMPUTER OPERATORS	132
CHILD CARE WORKERS, EXCEPT PRIVATE HOUSEHOLD	125
WELDERS AND FLAMECUTTERS	123
STOCK CLERKS, SALES FLOOR	120
ELECTRICAL ENGINEERS	115
COMPUTER PROGRAMMERS	112
ELECTRICIANS	109
BANK TELLERS	108
ELECTRICAL AND ELECTRONIC TECHNICIANS	107
LAWYERS	107
SALES AGENTS AND REPRESENTATIVES, REAL ESTATE	102

1/ LOW ALTERNATIVE ONLY

SOURCE: BUREAU OF LABOR STATISTICS

OCCUPATIONS THAT ARE PROJECTED TO DECLINE DURING THE 1980'S

OCCUPATION	PERCENT CHANGE IN EMPLOYMENT, 1980-90	EMPLOYMENT, 1980 (IN THOUSANDS)
FARM LABORERS	-20	1,175
GRADUATE ASSISTANTS	-18	132
FARMERS	-17	1,447
SHOEMAKING MACHINE OPERATORS	-17	65
SECONDARY SCHOOL TEACHERS	-14	1,237
COLLEGE AND UNIVERSITY TEACHERS	-12	457
COMPOSITORS AND TYPESETTERS	-10	128
MAIDS AND SERVANTS, PRIVATE HOUSEHOLD	- 6	478
CENTRAL OFFICE REPAIRERS	- 6	51
TICKET AGENTS	- 4	53
TAXI DRIVERS	- 3	71
CLERGY	- 3	296
POSTAL CLERKS	- 2	316

SOURCE: BUREAU OF LABOR STATISTICS

In assessing the impact of the service industry and technological trends journalist Bob Kuttner predicts a polarization in job opportunities in the U.S. Middle level, relatively well-paying jobs will be eroded, he says, forcing the majority of workers into low-paying jobs and reducing the overall standard of living.[5] Considering the increasing number of women and minority new labor force entrants--who traditionally find work in lower-paying service occupations--this may be of significant concern. Certainly, for the displaced worker laid off from the declining manufacturing industries, such a scenario is not bright.

How can states adapt to changing labor markets? Columbia University researcher Theirry Noyelle, also observes a growing dualism in the labor market. Distributive services (wholesale, transportation, communications and utilities) and other public sector services, he says, continue to offer the best employment opportunities. They still provide large numbers of relatively well-paying "good" jobs and opportunities for upward mobility. Producer and nonprofit services, on the other hand, are characterized by a sharper dichotomy between well-paid, well-protected managers, professionals and technicians, and low-paid and relatively less protected clerical and service workers facing very limited prospects for advancement. Employment in the retail and consumer services is largely restricted to low paying, dead-end jobs.

He proposes that a better laddered labor market is needed. Upskilling today's lower status of workers and stronger equal opportunity efforts are needed to address this challenge. In addition, targeted economic development strategies are required to assist the Youngstowns and Flints of the country, who lack the resources to stabilize their traditional manufacturing base, as well as get a crack at some of the new jobs and activities.

If Noyelle is right, states need--now more than ever--to be selective about what types of industries, and jobs, they support and promote. They should investigate whether encouraging formation of new firms is a more productive economic adjustment approach than trying to attract employers from elsewhere. Moreover, many of the systemic factors that retard or encourage new business formation are within states' control or influence, thus permitting better targeting to particular occupations and industries than is generally possible with business attraction schemes. This perspective is important in devising statewide employment policies.

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5 Bob Kuttner, "The Declining Middle", Atlantic, July 1983.

3. Creating Jobs

Virtually all the evidence now available shows that the principal source of new jobs in the economy, and thus the key to adjustment in changing economic circumstances, are new firms. New and young businesses are responsible for a majority of net new jobs created.[6] Perhaps the most telling measure of the rising importance of new business in the American economy is the dramatic increase in business formations--from 90,000 a year in 1950 to 250,000 in 1970 and nearly 600,000 in 1982. Indeed, a crucial gauge of an economy's health is its ability to respond effectively to change--its capacity to form new businesses, to shape new products and ideas.

But the adjustment process also entails the death, as well as the birth, of firms. Several major studies have shown that localities experiencing the most economic growth are also experiencing the highest levels of business closings.[7] Regions in decline are losing net jobs primarily because of low rates of new business formation. David Birch of the Massachusetts Institute of Technology,notes that "The more dynamic the local economy (e.g., Houston) the greater the risk-taking and the greater the proportion of firms that fail. Our most successful areas are those with the highest rates of innovation and failure, not the lowest."[8]

A critical part of any economic adjustment strategy, then, is support for new business formation. State strategies should take into account two important factors: (1) dislocation presents entrepreneurial opportunities, and (2) successful new business formation is impeded by major, systemic barriers. Students of entrepreneurship agree that the trigger of entrepreneurial activity is frequently negative: loss of a job, being

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6 The two major bodies of research are from the Massachusetts Institute of Technology and the Brookings Institution. David Birch of MIT found that firms with twenty or fewer employees created two-thirds of all net new jobs between 1969 and 1976. About 80 percent of replacement jobs were created by establishments four years old or younger. Catherine Armington and Marjorie Odle of Brookings determined that small independent enterprises created more than 50 percent of net new employment between 1976 and 1980, which is substantially higher than their 37 percent share of total employment.

7 Candee S. Harris, "Plant Closings: The Magnitude of the Problem," Working Paper No. 13, The Microdata Project, the Brookings Institution, June 1983.

8 David Birch, "Who Creates Jobs," **The Entrepreneurial Economy**, Vol. I, No. 1, July 1982.

trapped in a dead-end job, divorce, emigration to a new country. The rise of entrepreneurship during the last three decades may be partially a reflection of economic dislocation.

Balanced against this view is the accumulating theoretical and empirical evidence that new, young and small businesses face numerous barriers which depress the overall level of economic activity, job creation and innovation. These businesses are particularly disadvantaged in capital markets, are hampered by legal and regulatory constraints, and fail most frequently because of inadequate technical and managerial capabilities on the part of the entrepreneurs.

State policies can and must overcome these barriers if states are to successfully promote the major sources of new jobs. Strategies for reducing capital market and legal barriers to new business formation are discussed in Section V. The problem of inadequate management skills can be addressed through training, and JTPA Title III should be regarded as a resource for job creation through entrepreneurship training. The sections that follow will examine specific opportunities for fostering entrepreneurship as part of an economic adjustment strategy.

III. STATE TRAINING AND ECONOMIC DEVELOPMENT POLICY

The Job Training Partnership Act (JTPA) prescribes a new role for state government in easing some of the economic and human costs of plant closures and layoffs. Title III of JTPA can be a key resource, around which special adjustment assistance measures and economic development activities can be tailored. Especially important are the ways states can use it to tap and broker other resources from the public sector, private employers and organized labor.

A. Shaping Economic Adjustment Measures Around JTPA

The authority now delegated to the governor under JTPA places states in an advantageous position to organize and target resources on dislocation problems. Some of the activities a state can undertake include:

- Brokering resources (financial and technical) from all levels of government and the private sector.
- Providing technical assistance on how to respond to closings and layoffs--to communities, businesses, and workers.
- Providing financial assistance by targeting federal program funds (JTPA and others) and relevant state monies.

- Monitoring closings and layoffs and developing a tracking system to monitor national, state and local data sources.
- Modifying or creating programs to better use existing resources or to deploy new resources--unemployment insurance, health insurance coverage, mortgage/rent assistance, commuting worker programs.
- Preventing closings--through worker buyouts, business assistance programs, alternative investors.
- Helping to create new businesses and jobs through entrepreneurship training.

Key areas in which states can exercise discretion include the following:

1. Allocating funds

There is no prescribed method for allocating Title III funds. Distribution could be handled a number of ways:

--Geographic allocation to substate areas, which could be congruent with Service Delivery Areas (SDA) or other sub-state boundaries;
--Competitive bidding in response to Request for Proposals, in which eligible applicants might be: JTPA program operators, state or local training institutions or other entities;
--Targeting funds to communities determined to be most in need, according to specific criteria;
--Retention of some funds at the state level permitting response on an as-needed basis.

These options, furthermore, are not necessarily mutually exclusive. Decisionmaking processes on allocating funds should be based on such factors as: the extent of concentration of worker dislocation; whether the state chooses to target certain types of workers within the JTPA definition; and whether the state wants to encourage certain types of activities over others.

In states where there have been mass layoffs and large plant closings, targeted funding to specific plants or communities, rather than statewide allocation, would be advisable. In other cases, competitive bidding could enable the state to foster particular types of adjustment strategies. These include as retraining for identified labor-shortage occupations, entrepreneurship training, leveraging of private sector resources for adjustment activities, and coordination between JTPA and vocational education and other post-secondary education systems.

2. Defining program activities

The JTPA statute specifies certain broad categories of activities and services for which Title III fund may be used and sets expenditure limits for some. States have substantial latitude to define and encourage particular kinds of activities.

Section 303 of the statute authorizes funds to be used for:

a. worker training and related employment services, such as

- job search assistance, including job clubs
- job development
- training in job skills for which demand exceeds supply
- supportive services, such as counseling and transportation assistance
- pre-layoff assistance

b. relocation assistance

c. program support for joint programs with employers or labor organizations to provide early intervention in the event of closures.

No more than 30 percent of the funds can be used for participant support and administrative costs, and within this amount, administrative costs are limited to 15 percent.

The statute states that the purposes for which funds may be used "include, but are not limited to" the above activities. Thus other, unspecified activities are also permissible. The introductory phrase of Section 303 (a) says funds "may be used to assist eligible individuals to obtain unsubsidized employment through training and related employment services." Expenditures consistent with this purpose (and which do not violate other provisions) are thus legally permissible.

Thus, the activities described above are open to fairly broad interpretation. For example, "job development" could include employer surveys to determine labor demand. It might also involve technical assistance to employers for job restructuring or work-sharing. The authorization to conduct "early intervention" programs in cooperation with employers or labor organizations is even more general. Possible activities could range from: JTPA-funded staff working at a closing to organize a job search or retraining project, to assistance to employees to organize a worker buyout.

In the course of Title III operations, states can choose to: (a) define and issue instruction on allowable activities before allocating funds, giving the state substantial control over local program design; (b) decide not to define allowable activities and services in advance, but rather to allow potential local program operators to propose activities they would undertake within the broad categories, and to define policy in response (This would permit greater flexibility, and perhaps greater innovation, in local responses.); and (c) foster certain kinds of activities, without issuing strict definitions, by providing suggestions, technical assistance and examples of the successful use of different approaches under differing conditions. This would permit local flexibility but also enables the state to influence local policy choices.

3. Defining the eligible population

There is no single definition of "dislocated worker." Most often, the term refers to an unemployed person whose most recent employment was in a declining industry or a declining occupation. Less commonly, the term refers to the unemployed who reside in a declining geographic area.

Most attention has focused on displacement from the major manufacturing industries--auto, steel and rubber, for example. Workers displaced from such industries typically have characteristics that distinguish them from the larger unemployed population. They tend to be older, have less education, be less geographically mobile, be more often male and non-minority, be accustomed to relatively higher wages and therefore likely to experience significant earnings losses, and be more likely to experience psychological and health problems upon job loss. Frequently, these characteristics are interrelated and such workers faced multiple obstacles to re-employment.

On the other hand, if dislocation is defined geographically, the term can apply to those usually defined as structurally unemployed. This includes those who lack occupational skills or whose skills are not in demand in the local labor market. This definition is more likely to include minorities, women and young.

JTPA Title III takes a very broad approach to eligibility. It defines "dislocated workers" as "substantial groups" of individuals who: (1) have been terminated or laid off, or who have received a notice of termination or layoff from employment, are eligible for or have exhausted their entitlement to unemployment compensation, and are unlikely to return to their previous industry or occupation; (2) have been terminated, or who have

received a notice of termination of employment, as a result of any permanent closure of a plant or facility; or (3) are long-term unemployed and have limited opportunities for employment or reemployment in the same or a similar occupation in the area in which such individuals reside, including any older individuals who may have substantial barriers to employment by reason of age."

Given this flexibility in the JTPA criteria, states may choose to establish operational definitions, or to designate certain workers, industries or communities for priority attention. For example, a state could specify occupations or industries to receive economic adjustment resources, then allocate funds through a competitive bidding procedure with a rating system that gives priority to programs for workers in the targeted industries. Alternatively, the state could target funds to the most severely distressed areas, but allow broader groups of the unemployed to be served--including the long-term structurally unemployed.

Further, opportunity for tailoring the JTPA criteria to fit local needs exists within the categories themselves. For example, those "who have received a notice of termination or layoff" could mean workers laid off temporarily, indefinitely or permanently. Again, priorities for service could be established so that those who most need help are assisted first.

In addition, the state may need, or want, to define "notice of termination or layoff." A broad interpretation could enhance opportunities for early intervention. This could be critical if the plant which is closing could still be viable with a different owner and financial assistance. Such options as employee buyouts require substantial lead time to arrange a successful transition, and technical assistance to workers may well be needed before they have actually received official layoff notices. Consequently, the interpretation of statutory eligibility criteria, in terms of whether such workers can be assisted, may be crucial.

4. Defining "matching funds"

Title III requires "matching" funds. States must generally match Title III funds dollar-for-dollar from nonfederal sources. This matching requirement is relaxed for states with unemployment rates above the national average. Also, there are no matching requirements for the $85 million "Emergency Jobs Legislation" funds or for grants made from the Secretary's 25 percent discretionary funding.

The Title III program rules (Regulations, Section 629.40) instruct the governor to "define and assure the provision of adequate resources to meet the matching requirements..." States may choose to define matching requirements in terms of "in-kind" or cash contributions. The state match can be fulfilled from local public and private sources or state sources. The only explicit statutory instructions are in Section 304 of the JTPA, which permits, but does not require, the use of: (a) costs of employment and training services provided by state or local institutions (such as vocational schools), private non-profit organizations or private, for-profit employers; and (b) Unemployment Insurance (U.I.) payments to individuals participating in Title III training programs (for up to 50 percent of the matching requirement). The latter provision is intended to encourage states to enable U.I. recipients to take training and retraining courses.

States can view matching requirements as a burden or an opportunity. For most states, matching funds requirements were relatively small in fiscal year 1983 (under $200,000 for the majority of states), although matching requirements will increase with the anticipated doubling of federal appropriations for fiscal year 1984. Nevertheless, most states should be able to satisfy their required match, particularly if they choose to count use of in-kind contributions, U.I. payments and vocational education expenditures. The main burden is not the match, but the paperwork to keep track of it.

On the other hand, the requirement can be used creatively to leverage less traditional funding resources and to elicit participation in an economic adjustment strategy from key public and private entities. Examples of resources the state could use to meet matching requirements include:

- loans or equity investments from state development finance resources to retain a viable firm that would otherwise close and lay off its workers;
- capital investments in a new business startup by a dislocated worker receiving entrepreneurship training under Title III (including equity investment by the entrepreneur or other private or public sources, or capital expenditures for equipment to start the business);
- expenditures for market studies and financial feasibility analyses to assist in business retention or formation, where eligible dislocated workers would be hired or retained.

These examples are atypical in terms of traditional concepts of employment and training programs. Still they would be permissible--provided such expenditures and the objective of employment for the eligible population are clearly connected. On the other hand, a set-aside or allocation of JTPA funds to a state or local revolving loan fund is inappropriate and probably illegal, because there is no clear connection between their use of funds and employment of eligible individuals. The controlling statutory requirement in making policy decisions is that there be expenditures "for purposes of services assisted under this Title" (JTPA, Section 304(a)(1)).

In summary, states have great flexibility in shaping economic adjustment measures around JTPA. A state can view its role broadly or narrowly. The key determination in deciding whether a particular project or expenditure is legal is the interpretation of JTPA statutory provisions and good advice from the state solicitor is clearly necessary. The state has not only the authority, but also the responsibility, to exercise good judgement in interpreting the law. But so long as employment for the target population groups is the clear and documented objective, creative approaches should be considered.

B. The State Government as Resource Broker

JTPA Title III funds alone are not sufficient to solve the problems of communities and workers affected by rapid and wrenching economic change. The state is in a position to organize and broker other resources that are also necessary--from the private sector, organized labor, and from other federal, state and local government sources. These resources can be in the form of financial assistance, in-kind contributions, services to client groups and technical assistance to local governments and communities. The following list is suggestive, and certainly not exhaustive, of the possibilities.

1. Private Sector

Employers laying off workers or closing a plant may be in the best position to assist affected workers. State intervention and assistance can help to reduce the friction and adversity in what is inherently a difficult situation, so that workers' transition to new employment can be speeded. Several states have had success with an "adjustment team" approach, in which state staff go on-site to provide assistance. The California Economic Adjustment Team is a prime example. State staff have set up re-employment centers in several communities, some located at plant sites. The team works with the employer to identify workers needing assistance, set up a skill and occupational

assessment process, help organize resources in the local community and establish job-search and retraining programs. Such efforts are most effective if begun before the plant closing or layoffs occur, since it is difficult to locate the workers after the fact. Employer cooperation is critical, and the state is often in a better position than the local community to elicit employer participation.

The state can broker other private sector participation. Such aproaches include: contributions of equipment, space or instructors for retraining programs; financial counseling or debt restructuring assistance by financial institutions; tapping employer networks for job development; and providing other job search assistance, such as job fairs for displaced workers. States should also investigate private foundation sources. Many corporate foundations support job training and economic development activities through grant and charitable contribution programs.

2. Organized Labor

Organized labor has helped develop dislocated worker programs and has provided services at many plant closing sites across the country. Since, in many cases, displaced workers are union members, labor organizations can be a vital source of assistance to states in developing and operating programs.

As part of, or advisers to, an Economic Adjustment Team at the state level, union organizations can assist state policymakers by: (1) providing information on closures and layoffs as part of an early warning system; (2) surveying worker dislocation problems; (3) designing and administering worker counseling and social service efforts; (4) organizing re-employment services; (5) establishing quality-of-work-life programs to create a more cooperative, problem-solving relationship between management and labor; and (5) developing successful worker buyouts of closing, but still viable, plants.

For instance, the Economic Dislocation Program of the United Food and Commercial Workers Union (UFCW) is designed to assist union members displaced by plant and store closings. A task force of UFCW specialists travel across the country to assist locals in providing adjustment assistance. Recent activities include: establishing local task forces to provide community-wide response to a closure; sponsoring workshops on job-seeking skills; identifying the labor force skills and needs of members and helping them to locate new employment; assisting locals with

unemployment insurance applications; placing workers in apprenticeship programs; establishing job clubs; and working with federal retraining efforts.

Another effective response to the plant closings problem is the Human Resources Development Institute (HRDI) of the AFL-CIO. The approach is two-pronged: it addresses workers' immediate needs with assistance workshops conducted at the time of the layoff, and it addresses their long-range needs through the development of retraining programs, job search assistance, and the like. Workshops for the recently-unemployed provide vital information on labor-management issues, including pay provisions and other termination benefits, tips on coping with job loss and getting a new job, and advice on claiming unemployment benefits. Key to the success of these workshops is their timing, logistical planning, notification of workers, and selection and proper briefing of the presenters. Such activity can be financed by state contracts with state HRDI organizations on the state AFL-CIO organization.

After such workshops, further services are needed to facilitate re-employment. These generally involved job search assistance, including self-awareness counseling, group instruction in how to look for a job, coaching for job interviews, peer support, and, where possible, matching workers with employers in other areas. In addition, training-retraining programs are conducted at educational or vocational institutions. HRDI has had success working with a number of unions across the country and these program models are described in a their guide.

A 1982 collective bargaining agreement between the UAW and Ford Motor Company created the jointly administered Employee Development and Training Program (EDTP). Five cents an hour from the paychecks of union members finances career counseling and guidance, job search and placement help. The program's National Vocational Retraining Assistance Plan provides tuition and certain fees up to $1000 per year--up to four years depending on seniority--for self-selected education and training. From August 1982 through July 1983, over 2,600 course enrollments were approved throughout the U.S. EDTP's Targeted Vocational Retraining Projects are specially designed, full-time technical training efforts for laid-off employees focusing on areas identified as having good job prospects. To date, 600 laid-off employees are enrolled in courses at six sites in Alabama, California, and Michigan.

The Communication Workers of America are actively involved in quality-of-work-life experiments to improve job satisfaction and enhance labor productivity. The union's Committee on the Future is developing ideas on long-term training and career

development for its workers so that employees of the "information age" will acquire the portable skills they need to take from job to job.

In addition, many unions at both the local and national levels have negotiated contract clauses which: (1) provide additional time so that preclosure interventions can be effectively organized, and (2) provide workers transfer rights, supplemental unemployment payments, severance pay, and other benefits. A 1978 U.S. Department of Labor study showed that about 1.5 percent of contracts contained clauses dealing with plant closures, layoffs, or relocation.

One of the most innovative of these contracts is the United Electrical Workers (UE) agreement with General Electric and Westinghouse covering plant closings, retraining and adjustment assistance. The union won a one-year advance notice of plant shutdowns, plus 60-day notice before the introduction of new technologies that might reduce facility employment. Union members also became eligible for $1,800 in retraining monies for certified career education. The contract provides additional income protections and extended medical benefits for older workers, an increase in severance pay for terminated employees, and liberalized vesting requirements.

Unions who have collective bargaining agreements covering such issues often have resources available which may be leveraged and used along with those from the public sector and the employer. Further, some unions, as noted above, are becoming involved in retraining programs, labor management committees, quality of work life experience, and other innovative efforts. The problem for states is to know just what resources exist under which agreements and which unions are engaged in such activity.

States do not record the provisions of individual bargaining agreements, nor do they document the activities of individual locals. Labor organizations do and it is in the interest of states to establish relationships with labor and apprenticeship officials to gain the information sought. While such information will probably be freely given, states can insure access and cooperation by including these resources in strategic planning and supplementing those resources with state funds.

3. Other Federal, State and Local Resources

In addition to the Job Training Partnership Act, economic adjustment coordinators can draw upon a wide range of other federal resources in designing and implementing their programs. Most important are those of the Economic Development Administra-

tion, Department of Commerce, Department of Housing and Urban Development, the Small Business Administration, and the recently passed 1983 "Jobs Bill."

Traditionally, EDA's Title IX, Special Adjustment Assistance program, and the Trade Adjustment Assistance Act have been the mainstays of economic adjustment strategies. Title IX provides grants to states, cities, other eligible applicants for helping local areas develop and implement economic adjustment plans designed to address major job losses and reestablish employment opportunities and long-term recovery. In 1983, $33 million has been appropriated for Title IX. (The Administration proposes eliminating this program and the rest of EDA in its FY '84 budget.)

Trade Adjustment Assistance (TAA) is a Department of Commerce program to help U.S. firms adjust to business problems caused by import competition. TAA provides two types of aid: (1) technical assistance grants for hiring consultants to analyze business problems and devise revitalization strategies, and (2) direct or guaranteed loans for acquiring or rehabilitating either fixed assets or land and for financing working capital.

In addition, the U.S. Department of Labor runs a trade adjustment assistance program targeted at displaced workers. To obtain funding, workers must petition the Office of Trade Adjustment Assistance within the Department of Labor. If the office certifies that they have lost their jobs because of imports, the workers may receive benefits from their state employment security administrations.

In the past, communities have also sought and obtained help from the U.S. Department of Housing and Urban Development (HUD). The two most helpful programs have been Community Development Block Grants (CDBG) and Urban Development Action Grants (UDAG). CDBG and UDAG grants come in two basic forms, one for large cities and another for smaller communities. UDAGs are tied directly to private sector commitments of money and are designed to restore seriously deteriorated business and residential communities. UDAG monies, for example, were used in the employee purchase of a large Rath meatpacking plant in Waterloo, Iowa, which was destined to close and thereby eliminate thousands of area jobs. The UDAG was a critical piece in successfully preventing this closure and modernizing the firm's facilities.

For smaller businesses in danger of shutting down, the resources of the Small Business Administration are applicable. Notable among these are its SBA 7a guaranteed loans to firms denied financing by a commercial bank, but able to pay back

long-term debt. The SBA 503 (Certified Development Corporation) program is an excellent economic development tool for financing long-term fixed assets. The Small Business Investment Company (SBIC) and the Minority Small Business Investment Company (MESBIC) programs provide equity as well as debt capital to smaller enterprises.

The new "Jobs Bill" (H.R. 1718) approved by Congress this past spring would appropriate billions for a jobs plan for areas with higher than average unemployment rates. Additional monies are provided for over sixty federal aid programs, including $85 million for Title III of the Job Training Partnership Act and more funds for the HUD and SBA programs described in this section.

State and local governments are also using more of their own resources for economic adjustment strategies. State officials can tap traditional resources, such as vocational education institutions, as well as legislative appropriations for complementing federal initiatives.

For example, one of the most useful employment programs are customized employer training programs. Millions of dollars are spent by state governments every year on training workers to meet the particular needs of specific employers. These vocational programs have different names in different states--in South Carolina, "Special Schools," in Minnesota, "New Jobs," and in Texas, "Profit-train." States can use these efforts to retrain dislocated workers for occupations in growing sectors.

Several states have recently passed employee ownership legislation. A 1979 Michigan law (Public Law 44) established a special office in the state Department of Labor to aid employees in purchasing and then operating closing businesses. Michigan's 1982 Economic Development Authority Act includes several more employee ownership provisions, establishing an economic development authority and directing it to "fund at least five industrial facilities conversion projects" each year. The Act provides a priority for employee buyout efforts.

In 1981 Maryland passed four laws supporting employee ownership, including the Maryland Broadened Ownership Act, which directs all state agencies involved in economic development, regulation, or planning to issue reports on how their programs can be used to support or promote employee ownership.

A 1982 Illinois law allows employees of closing or relocating plants to purchase and operate them as worker-owned businesses, authorizing the state Department of Commerce and Communi-

ty Affairs to provide technical assistance and financing, and creating a $500,000 loan fund for investments which have at least 75 percent outside funding.

A new Massachusetts law will facilitate the formation of employee cooperatives by giving employee-owned businesses a dependable legal framework which protects their member's rights.

Local governments can also get in on the act. Such tools as land banking, tax increment financing, industrial revenue bonds, and others can all be used to improve local business climates and preserve jobs by retaining firms.[9]

IV. MITIGATION STRATEGIES

Most individuals and communities are ill-prepared for the economic and social dislocation of a major plant closing or layoff. Public policy responses to the problems of skill obsolescence and inadequate training in the face of rapid technological change have been largely inadequate. Yet states can take decisive actions to mitigate the harmful impacts of change on workers and communities.

Although little empirical research exists on which strategies work best, information on some experiences is emerging. The nature of the problems and potential responses is becoming better understood.

A. Assistance to Workers

For workers, the two primary mitigation strategies have been retraining and job search assistance, sometimes coupled with counseling to deal with personal and financial problems. To date, results of such efforts appear mixed. Some observers

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9 For more information on new employee ownership legislation, contact: National Center for Employee Ownership, 1611 S. Walter Reed Drive, #109, Arlington, VA 22204. Good sources of information on federal economic development programs are the Northeast-Midwest Institute, 218 D Street Street, S.E., Washington, D.C., 20003 and the Council for Urban Economic Development, 1730 K Street, N.W., Washington, D.C. 20006. State and local economic development programs are well-tracked by the Corporation for Enterprise Development, 1211 Connecticut Avenue, N.W., Suite 710A, Washington, D.C. 20036, and the Conference on Alternative State and Local Policies, 2000 Florida Avenue, N.W., Washington, D.C. 20009.

believe job search assistance is the most cost-effective intervention for workers who have substantial work experience. Retraining does not always prove to be effective, either with regard to placement or with respect to maintaining or increasing earnings, for displaced workers. That means that states need to be particularly careful in prescribing services for this population. Of particular importance is detailed knowledge about the workforce to be served and the particular skills lacking. For example, some individuals may profit more from a basic education in math and language skills than training in an occupation-specific task. Finally, personal and financial counseling is viewed as a worthwhile investment, both in terms of helping workers cope with psychological and financial hardships and by informing workers of available resources.

1. Retraining

There has been little evaluation of the effectiveness of retraining programs. The major federal program for displaced workers prior to JTPA was the Trade Adjustment Assistance (TAA) program. TAA has been widely criticized as relying primarily on income maintenance and providing too little in the way of retraining. A program combining upgrading of employed workers and retraining of displaced workers was added to CETA in 1978, under Title IIC. Unfortunately, little usable information resulted from it.

The largest, and most thoroughly examined, displaced worker program to date is the Downriver Project in Michigan supported by a Labor Department demonstration grant. This program provided retraining, counseling, and job search and placement assistance for workers displaced by the closings of auto industry supply plants.

The Labor Department contracted with ABT Associates to evaluate the program, and their first report yielded the following tentative findings:

- The Downriver program registered a reemployment rate of 72 percent for program participants, compared to an estimated 50 to 60 percent without the program.

- The program proved most helpful to black workers, workers with less education, and those who worked as operatives rather than crafts workers. These workers would likely have had less success finding jobs without the program.

- Those who received job training as a group were not reemployed at a significantly higher rate than those who received only job search and placement assistance.

- Downriver program costs averaged $1750 per participant.

The most controversial question the Downriver findings raise is the relative utility and cost effectiveness of retraining versus job search and placement assistance.

For instance, the Downriver study found that on-the-job-training, which typically offers only an employment subsidy--rather than an opportunity to acquire new and substantially different occupational skills--had minimal positive impact on reemployment rates.

More significantly, however, the study found enrollment in high technology classroom training courses had a significant negative impact on reemployment rates, and was less effective than providing job search assistance only. The researchers speculate that the poor results of the high tech training may have been caused by reported "operational problems encountered with one of these courses, which was run by a proprietary institution under contract with the Downriver program." Other classroom training courses had positive impacts.

Some clues to the ineffectiveness of the high technology training are suggested by more detailed information on courses given by the local community college under contract with the Downriver project. This information suggests that the problem may have been more with the labor market demand for "high-tech" workers in the area than with the inherent effectiveness of training as a reemployment strategy.

The Wayne County Community College has operated 12 vocational training programs for the Downriver project, training 280 persons in eight vocational areas. The college had the least success with two computer and data processing classes. Of 43 course completers who were surveyed, only 10 were employed; of these, only 5 were in training-related jobs. (Two of these were employed by the Community College and one by a local university.) In the college's most successful course--building operations management--a survey showed that at least 50 percent of the 24 completers were employed after training.

Noting the relatively poor results of the high tech training, the college pointed out that companies in the area required

bachelors degrees for entry level positions in data processing. Indeed, a substantial portion of the high tech completers were enrolled in degree programs, and thus were unemployed.

The findings do not necessarily indicate that retraining is an ineffective intervention strategy for dislocated workers. But program planners should proceed with caution when considering high-tech training courses. At a minimum, a careful assessment of labor market demand is needed.

Another significant finding in the Downriver project is the experience of the community college in adapting to the retraining needs of dislocated workers. The college made the following changes to its normal procedures to serve this population:

- Courses were shortened, ranging from 4 to 10 months, with mechanic tool being the shortest and the computer and data processing and electronics courses the longest. Individual classes usually spread out over a 15-week period were compressed into three to four weeks, with the hours per week increased.

- Procedures for developing and starting new programs was streamlined.

- The college hired as an outside consultant an owner of a private firm in each vocational area in which training was given to advise on training specifications and identify instructors to teach courses when the college's own faculty was not available.

- Faculty contracts for teaching classes for the Downriver classes were separate from regular faculty contracts so that regular faculty could teach these classes if their schedules permitted. This was not normally done.

- Outside faculty were hired to teach classes, providing flexibility which does not exist in other parts of the college.

Wayne County Community College compared the grades of the Downriver training students with those of students in regular classes and found the displaced workers' performance was substantially better: 70 percent received "A" or "B" grades compared to only 49 percent of the regular students. Only 7 percent of the contracted training students failed compared to 26 percent of the regular students.

The experience of Wayne County Community College shows that existing institutions can respond to the rapid change of economic dislocation and the performance analysis suggests that academic achievement does not suffer. States can aid educational institutions in adapting to dislocation by providing technical assistance and, for state community college and vocational education systems, by bringing the appropriate officials into the adjustment strategy.

Finally, entrepreneurship training should be considered as a retaining strategy. Evidence suggests that it can improve the performance, and increase the survival rate, of new and small businesses.[10]

The criteria for screening participants and program design are critical to success: candidates for entrepreneurship training should have a business idea; training should be built around their preparation of a business plan. Successful programs often use local practitioners, such as accountants, lawyers, bank loan officers and small business owners, as instructors. Such an approach has several advantages. It imparts practical information in a learning-by-doing experience and provides a network or support system of entrepreneurs and technical experts that carries over into the business start-up. It enables the entrepreneur to establish contacts with sources of financial and technical assistance, and it screens out those who are not serious about starting their own firms.

2. Job search assistance

Job search assistance, including placement assistance, may be the most cost-effective service for many displaced workers. Many have good skills and experience, but lack recent experience in looking for work, have little or no information on labor demand and are unaware of the transferability of their skills.

Different types of assistance produce varying results. The Downriver program tried one approach, then switched to another when the first did not produce placements. An initial 4-week Job Club Model, relying heavily on "working the phones" and cold-calling employers for job leads, with peer reinforcement, produced unsatisfactory results. Participants expected that if

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10 Information on a number of entrepreneurship training programs shows positive results, among these being: the American Woman's Economic Development Corporation, Job Creation Ltd., the Minnesota Cooperation Office, and several CETA-funded programs including Be Your Own Boss in Broward County, Florida, and the Hawaii Entrepreneurship Training and Development Institute (HETADI).

they just followed the prescribed steps, they would find a job. This approach was no more successful than non-assisted job search.

Consequently, the Downriver staff switched to a new approach stressing individual effort and initiative. The new approach required attendance in a four-day job search training session, which taught participants how to job hunt and identify their own skills, and helped in writing resumes, and preparing for interviews.[11]

This experience does not mean that jobs clubs are not useful. Other studies report that job club participation can significantly improve workers' success in finding a job at a very low (under $200) cost per placement. A useful part of a state's dislocated worker program could include a state analysis of effectiveness of different approaches to job search assistance and provide this information to local organizations operating job search projects.

3. Counseling and support services

Research shows that because displaced workers frequently have unrealistic expectations of returning to their previous employment and are frustrated and bitter over their experience, they are often inhibited from effectively looking for other work.

Counseling can help overcome these barriers. Intervention should begin before a layoff occurs, if possible, and should make workers aware of available services. Displaced workers need: information on occupational demand; individual skill assessment; and information on social services available in the community. Financial counseling on budgeting with reduced income and on how to obtain financial assistance also may be needed. And support services, such as day care and transportation assistance, may be required to supplement job search activities.

JTPA places a cap on expenditures for "supportive services" which, combined with administrative costs, cannot exceed 30 percent of total expenditures. Because the definition of counseling is somewhat ambiguous, state policy or statutory interpretation is probably needed. The definition of support services in Section 4 of JTPA pertains primarily to services such

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11 From an evaluation of the DCC project by ABT Associats: Reemploying Displaced Workers: The Implementation of the Downriver Community Conference Economic Readjustment Program, September, 1982.

as transportation, child care and temporary shelter, which would normally involve a cash outlay to purchase the service.

The main area of ambiguity is "counseling." While only "financial counseling" is specifically mentioned in this definition, Title III brings "financial and personal counseling" together under supportive services. A reasonable interpretation would be that any counseling related to job search would not be considered a supportive service, but could be counted as a training cost. States should be prepared to provide clarification on this issue.

Another approach is to obtain counseling and supportive services as in-kind services which would count toward the matching requirement. For example, financial counseling can sometimes be obtained at no cost from private financial institutions, such as local banks and investment companies. The California Economic Adjustment Team, for instance, arranged for banks to provide free financial counseling at plant closing locations.

4. Relocation, job development and other assistance

Experience shows relocation assistance has been of limited utility in most cases. Reasons include: (a) lack of workers' mobility because of such factors as age, community and cultural ties and home ownership--particularly in a depressed local housing market; (b) the high-risk nature of relocation as a re-employment strategy, since jobs can evaporate and workers can experience adjustment problems in their new localities; and (c) the political unpopularity of moving citizens out of a community.[12]

The Downriver Program provided some relocation assistance, including information on out-of-area job demand, assistance in obtaining interviews with employers, and cash assistance for travel and moving. Program staff kept tight control on this program component. For example, they provided financial assistance for out-of-area job interviews only when they could confirm a bona fide interview. Before providing cash assistance for moving, program staff confirm a job offer and starting wage to judge if it could cover living expenses in the new area. And

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[12] In a study for the National Commission on Employment Policy by Marc Bendick and Judith Devine, the researchers found that long-term joblessness among dislocated workers partially arises from their relative affluence: a high rate of home ownership, high wages and fringe benefits, and additional family wage earners. All these factors contribute to a lower rate of job search activity than more disadvantaged workers experiencing similar unemployment.

project staff negotiated an agreement with several moving companies to serve participants at below commercial market rates.

Job development typically means contacting employers to determine short-term hiring plans. Since state and local practitioners use this term loosely to cover activities from the seeking of openings to creation of tailor-made jobs for specific individuals, states would be wise to specify carefully what it is they mean when contracting for or planning for this activity. Whatever the definition, however, job development is of limited utility in areas with high unemployment rates and where plants have closed. Job development is more effective if conducted by, or in close cooperation with, private employers themselves. The state could facilitate private sector involvement by enlisting their participation through statewide employer organizations, who can, in turn solicit resources and help from their members. The private sector can be particularly useful as a broker between displaced workers and potential employers. This approach is especially effective when employers who are laying off workers intercede on their behalf to "market" their employees to other firms.

Hiring job development staff from the private sector, particularly people with a marketing background, can prove beneficial, as the Downriver project found. The emphasis was on selling a product--experienced and skilled workers--to a customer--the employers. Individuals with private sector backgrounds were best able to communicate this message.

Finally providing basic education may be a cost-effective intervention. Combined with job search and placement assistance, it can prepare many individuals to compete more effectively in the labor market. Occupational training at Downriver was preceded in many cases by adult basic education classes. Basic education is a critical component for laid-off auto workers at a closing Ford plant near San Jose, where a school district official called adult illiteracy the community's "most closely guarded secret" adding that many Ford workers lacked basic reading and writing skills. The San Jose project, operated by the UAW and Ford, offers classes at the plant site, finding workers more comfortable in a familiar surrounding. Basic education may prove a valuable mitigation strategy, since estimates of adult illiteracy in the U.S. range as high as 20 percent.

All of these services may be funded out of JTPA Title II resources, either those amounts that have been passed through to the localities or those amounts that are retained at the state level subject to gubernatorial discretion. Job development is, further, an activity regularly conducted by the state employment

service and funded by Wagner-Peyser funds. The Wagner-Peyser amendments that appear in Title V of the JTPA further provide that Wagner-Peyser resources may be used to support employer technical services, activities geared to assist employers with such things as occupational analysis, services that can aid employers in restructuring jobs and workforces. These technical services which can come into play either during times of employment expansion or contraction can support economic development activities geared to either job creation or retention. In short, as states pursue worker assistance strategies, they should take into account both JTPA Title II and Wagner-Peyser resources.

5. Work Sharing

Under a 1978 California law, instead of laying off workers, busiresses can cut back on payrolls during hard times by reducing the work week and employees can receive partial unemployment insurance benefits from the state. This method of work sharing is called short-time compensation.

Short time compensation helps both employers and employees. Businesses can keep their workforce during a temporary slowdown, and thus more quickly gear up when conditions improve, avoiding the expenses of recruiting, hiring, and training new workers. In turn, employees are spared the hardships of total unemployment and may maintain fringe benefits. Businesses which must reduce their work force permanently can use the program as a phased transition to a layoff. Affected employees continue to work at reduced levels with an opportunity to find other jobs before the expected layoff.

California's program is voluntary. If a union is in the plant, its bargaining agent must agree to cooperate. As of November 1982, almost 173,900 workers had been certified in 4,485 firms. The average work sharing experience was about six weeks. Employees received about 90 percent of their full time earnings.

Presently, Arizona, Florida, Oregon, and Washington also run worksharing programs like California's. Early evaluations reveal these programs work best in temporary slowdowns, not when a company suffers a permanent decline in business. Workers, less fearful over losing their jobs, spend more freely, which helps local retailers. Workers usually retain medical benefits, so hospitals absorb fewer costs from cash-strapped patients. And companies can maintain the productivity of their labor force.

At the federal level, a Short Time Compensation (STC) provision modeled on California's was included in the Tax Equity and Fiscal Responsibility Act of 1982 (HR 4961). Although it did

not mandate work sharing, the federal bill offered technical assistance to states wishing to try the approach. The legislation would have made eligible for STC individuals whose work weeks were reduced by at least 10 per cent under a qualified employer plan. The compensation would have been a pro rata portion of the unemployment benefits the individual would have received if totally unemployed; and no employee could receive short-time compensation for more than 26 weeks in any 12 month period. Eligible employees would not have been expected to meet the availability for work or work search test requirements while collecting short-time compensation benefits, but would have to be available for their normal work week.

Qualified employers, under the federal bill, were required to certify to the state that the reduction in work hours was instead of temporary layoffs which would have affected at least 10 per cent of the employees in the unit or units to which the plan would apply. The employer would continue to provide health and retirement benefits to STC employees as though their work week had not been reduced.

Work and/or job sharing (both terms are used, sometimes generically, sometimes to indicate different activities) raise a link between economic development, JTPA and Unemployment Insurance that is not always noted by states in planning mitigation strategies. As noted, both approaches may be used either to reduce unemployment by retaining jobs or increase employment by providing part-time opportunities for those workers who either cannot or prefer not to work full-time. At issue in either case, is the issue of "benefits", particularly the benefits that accrue with regard to "lay-offs". Legislation which provides for coverage of part-time workers and also partial payments during periods of "short time" can be of special benefit.

B. Assistance to Communities

By granting states new responsibilities for managing and allocating employment and training resources, the Title III program offers states the opportunity to test innovative approaches while addressing their own particular worker dislocation problems.

In certain ways Title III is less prescriptive than Title II--the "main" JTPA program. There is no prescribed allocation formula or process or delivery system, and participant eligibility criteria are fairly broad. Thus, states can test alternative strategies in such areas as: short-term, "crisis" intervention; technical assistance, and institutional adaptation.

1. Short-term, crisis intervention

A large plant closing or mass layoff usually takes local resources beyond their means. State assistance can be critical in helping to organize community resources and bringing in outside assistance.

States can establish a flexible, mobile unit to respond to crises as they occur. The California Economic Adjustment Team (CEAT) has proven very effective in helping to assist communities in which large plants have closed, and other states have set up similar mechanisms. CEAT-established "re-employment centers" offer workers comprehensive adjustment assistance. The team works with employers, unions, community service organizations, local Job Service, and other state agencies to concentrate resources on problem sites.

If the CEAT approach is used, the following steps are suggested: First, the governor appoints an ad hoc task force of agency officials responsible for training, employment, vocational education, economic development, and labor relations to determine the extent of the problem. Should it warrant state intervention, the task force should develop guidelines for the state leadership, including recommendations to: (1) assemble a permanent task force comprising staff from each of the pertinent agencies; (2) develop a system to predict, confirm and describe in detail layoffs which will warrant state intervention; (3) expand economic and demographic analyses to coordinate retraining and relocation programs with likely trends in the state's labor markets and economic development programs; (4) develop specific plans for intervention at the local level, in each case securing the participation of the departing company, the union, local community service organization and government in a local task force to design and implement a worker assistance program; (5) provide continuing oversight of the local projects, and evaluate them informally, both to publicize positive aspects of the project and to identify obstacles requiring state legislation or other assistance.[13]

Another crisis intervention model is Canada's Manpower Consultative Service (MCS). A federal agency, MCS mobilizes and coordinates local resources, particularly by working with

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13 "A Comprehensive State Response to Plant Closings and Mass Layoffs," by Ruth Fedrau, **The Entrepreneurial Economy**, Vol. 1, No. 5, November 1982. For further information, see Planning Guidebook for Communities Facing a Plant Closure or Mass Layoff, January 1983, available from the California Employment Development Department.

employers and unions to form a local committee for operating a worker assistance project. It also provides for limited administrative funds, on a matching basis, with local government and private resources. The major worker assistance is direct placement, but MCS also refers workers to the Canadian equivalent of the Job Service for counseling, job search training, retraining or relocation assistance. To be effective, the MCS relies on early warning of plant closings. Canada has a law which requires advance notice from employers planning to close or relocate.[14]

To operate a crisis intervention model, states would need to reserve a portion of Title III funds management and administration, as well as Wagner-Peyser dollars. Although JTPA's cap on administrative funds makes this somewhat difficult, the use of matching monies could supplement. For states with concentrations of large layoffs, the short-term, crisis intervention approach may be the most effective use of resources. These states can test and refine alternative state roles in providing community assistance--an experience which may have carry-over value in operating the overall JTPA program.

2. Technical Assistance

As managers of Title III resources, states must provide practical and timely technical assistance to the agencies actually delivering services. First, to the extent possible, states should be as familiar as possible with existing descriptive information and studies of dislocated worker programs and provide this information to local program operators, analyzed for its applicability to each state's situation. The state can also prepare written materials for local program operators. These include:

- sample forms for worker survey and needs assessment;
- examples of community resources, including social service agencies, the private sector, and a statewide inventory of training and retraining institutions;
- a listing of state and federal programs that could be used in local worker adjustment projects;and
- materials on alternative types of worker assistance, such as job search assistance, retraining, relocation assistance and entrepreneurship training.

3. Adapting Institutions to Needs

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[14] For further information on the MCS approach, see Workers' Adjustment to Plant Shutdowns and Mass Layoffs by Michael C. Barth and Fritzie Risner, National Alliance of Business, 1982.

The advent of JTPA is causing states to evaluate, or re-evaluate, the capacity of public training and employment-related institutions to assist the unemployed, and to consider ways of improving existing operations or develop new responses. In the case of dislocated workers, their specific needs are in some ways more readily identifiable than those of the unemployed population in general, consequently, institutional responses are also, to some extent, easier to identify. A good example is the community college in the Downriver project, which altered customary practices to meet the particular needs of laid-off workers.

Other institutional barriers to worker adjustment have come into focus with the emphasis on displaced workers, and in some cases, new responses have developed. Some examples are: revising unemployment compensation rules to reduce disincentives to training for U.I. recipients; enacting new U.I. legislation allowing part-time compensation so employers can reduce workers' hours rather than laying them off; enacting legislation to encourage Employee Stock Ownership Plans to retain existing plants and jobs; improving labor market information and economic indicator programs to better predict short-term trends.

These responses, discussed in the next section, do not occur immediately--institutions take time to adapt. However, Title III presents states an opportunity to experiment with innovative approaches to addressing the problems of an identifiable target group. These efforts can also benefit the larger unemployed population and assist communities, which are limited in their power to change institutions

V. BUILDING LONGER-TERM ADJUSTMENT POLICIES

Although short-term mitigation programs can make a real difference in the lives of citizens and the health of communities hit by plant closings and major workforce reductions, they constitute only a life raft in a sea of economic turmoil. Other more long-term efforts are needed as well.

Establishing an effective early warning system is of enormous use in gathering needed data and making the necessary analyses to devise a long term strategy for state economic development. Comprehensive state plant closing legislation could create a more adequate safety net for workers and communities and provide the time necessary to respond foresightfully to both the causes and consequences of economic dislocation. Investing more in a state's people through a GI Bill type voucher program could raise labor productivity by increasing the level and appropriateness of worker skills, as well as aid those whose needs aren't met by the

existing educational and training system. And retaining viable firms through employee buyouts, attracting more outside firms, and fostering new enterprise development all sustain and augment the pool of jobs in a state.

Thus, a long term adjustment strategy is not simply a training policy or a means of reacting to plant shutdowns. It is also a fundamental tool for increasing the capacity of communities to forge their economic futures, to integrate state and federal resources, and to mesh employment programs with economic development efforts.

A. Creating an Early Warning System to Monitor Structural Changes

One barrier that continually handicaps effective employment policy planning is the lack of adequate data on labor supply and demand. Federal and state data on occupational projections, labor supply and unemployment generally are not disaggregated to a degree, or arrayed in a format, that is usable for local program planning. In a time of rapid economic change the problems become even more acute.

To plan an effective worker adjustment strategy, local communities need state assistance in developing and using sources of labor supply and demand information and on industry/occupational projections.

To be most helpful, labor market information is needed in five very different areas:

- Aggregated data describing plant closures and workforce reductions, to be used in allocating resources and preliminary overview planning of services.
- Aggregated plant closures and workforce reductions by county.
- Aggregated data by sector on job generation and loss, to help design economic remedies that take best advantage of a state's strengths.
- Information describing individual plants closing or reducing their workforce, to be used for planning particular projects.
- Information identifying specific occupations and/or employers that may be good prospects for employing

workers affected by a plant shutdown or workforce reduction.

By organizing and supplying information on these areas to local communities, states can both meet existing, short-term needs for adjustment planning and begin to build an information base for longer-term economic and employment planning. Some sources of usable data currently exist; in other cases state LMI programs will need to be enhanced.

States can draw data from three sources: published secondary data from standard sources; primary data obtained on a regular basis from administrative records or direct surveys; and informal data from public and private communication networks. All three types of data require skillful interpretation to design an early warning system and policy responses. No one type will satisfy the inter-related information requirements. Aggregate data is helpful for understanding the broad trends of distress, dislocation, and growth. Firm-level data is necessary for making specific interventions while geographic data constitutes part of an early warning system, and helps policymakers plan and allocate resources.

While primary and secondary data sources can be used for monitoring short-term trends, their quality is uneven in reliability and level of detail; confidentiality requirements restrict disclosure of some information. A combination of data from these sources and from public and private data bank, and the development of an informal communications network may be the best approach.

1. Private Sources of Information

Each issue of the Data Center's monthly Plant Shutdowns Monitor, includes an abstracted printout and selected nationwide news clippings of all shutdowns, layoffs and benefits cutbacks reported during the previous month. For a broad look at the issues, the Monitor is an excellent resource; however, it is not well suited for rigorous statistical research or timely plant closing intervention. It costs $65.00 annually. For more information, contact: The Data Center, 464 19th Street, Oakland, CA 94612, (415) 835-4692.

The Bureau of National Affairs (BNA) maintains several "labor data bases" which they use to derive aggregated regional statistics on layoffs by each industry for their quarterly Report on Layoffs, Plant Closings, and Concession Bargaining. For a fee ($50 and up), they will run off non-aggregated data on any state or region. In addition, the entire BNA data base can be searched.

Because the data is compiled by monitoring various trade journals, it should not be relied on for comprehensive statistical analysis. Data can also be supplied on a variety of related subjects ranging from employee benefit and contract packages to listings of plant closings in specific industries or areas.

Each quarterly report costs $10.00 from: BNA Distribution and Customer Service Center, 9401 Decoverly Hall Rd., Rockville, MD 20854. Inquiries on the computerized data base should be sent to: Research and Special Projects Division, BNA, Inc., 1231 25th St., N.W., Washington, DC 20037, (202) 452-4323.

The Site Report is a bi-monthly printout of newly-located or expanded plant facilities in the U.S. Though marketed primarily to industrial suppliers and area developers, it can supplement research on where plants are closing or opening. Each bi-monthly report presents a variety of data on over 500 new industrial plant expansions, arranged by state. The publisher also sells a detailed roster of 5,000 growth firms likely to be seeking new plant sites. The Report is $50 a year for coverage of the entire nation, $125.00 for one region, or $50.00 per state. The roster is $600. Both can be oredered from Conway Publications, Inc., 1954 Airport Road, N.E., Atlanta, GA 30341.

Another supplemental source is Dun and Bradstreet's DMI files, which are quite detailed and can be used to examine firm births, deaths, expansions and closings in a state. By themselves, however, the files are slightly misleading; they do not distinguish, for instance, among plant closings, discontinuances in reporting, changes in corporate ownership, and so on. Nonetheless, plant closings researchers in California and other states have drawn on the file, and the U.S. Small Business Administration is now exploring its use in conjunction with their Small Business Database Project. For more information, contact: Bruce Phillips, Office of Advocacy, Small Business Administration, 1441 L. St., N.W., Washington, DC 20416, (202) 634-7550.

2. Industry Projections

Every December the U.S. Department of Commerce releases Industrial Outlook, outlining industrial trends and one and five-year growth projections for 100 manufacturing and service industries. It can help state officials identify industries they may want to attract or nuture to replace jobs lost by plant closings. The Bureau itself is also an excellent technical resource. For more information, contact: Peter Reynolds, Editor, Industrial Outlook, Room 4424, Bureau of Industrial Economics, U.S. Department of Commerce, Washington, DC 20230, (202)) 377-4356.

3. State LMI Sources

States collect labor market information under three federal-state cooperative programs which, although primarily designed to produce national level data, can be useful for state and sub-state planning. These are the Current Employment Statistics (CES), Local Area Unemployment Statistics (LAUS), and the Occupational Employment Statistics (OES) programs. States collect the information through employer surveys and manipulation of other primary data sources. States will need to supplement federal LMI funds to make the data more useful for employment and training program planning. The Research and Analysis units of the State Employment Security Agency (SESA) can help state JTPA staff to determine the current capacity of the LMI programs to meet state and local planning needs.

Another important primary data source for adjustment planning is the quarterly E.S. 202 report, produced by the State Employment Security Agency. It is a summation of individual employer accounts in the state Unemployment Insurance system. All employers are required to report regularly payroll and employment levels for U.I. functions. State agencies submit the data to the Bureau of Labor Statistics, which will make computer tapes available. The data can then be accessed in a wide variety of ways. For further information contact: Susan Hostetter, Industry Employment Section, U.S. Bureau of Labor Statistics, 441 G. St., N.W., Washington, DC 20212, (202) 523-1297.By comparing consecutive reports, analysts can get some idea of changes in employment across the state.

BLS also collects information monthly on layoffs as part of the Current Population Survey. This data is gathered in a door-to-door survey of 60,000 households across the nation. Results are published monthly in of Employment and Earnings, and the BLS Employment Situation Press Release. The former gives some detail on the age, race, and sex of the laid-off workers; the latter provides a quick reference for comparison over time--tables include seasonally adjusted figures for the most recent five months and the corresponding figure one year earlier. Because the statistics are based on a sample survey, the state data is not reliable enough for local planning.

A final source that can be useful in dislocated worker programs if the 235 Report on Mass Layoffs, compiled by SESA local offices. Although designed to cover new layoff of 25 or more workers caused by increased energy costs, imports, or environmental factors, and all other layoffs of 100 or more, reporting is spotty and sporadic, capturing perhaps only 5-10

percent of new layoffs. The U.S. Employment Service cautions against relying on the data for planning economic adjustment programs. JTPA includes provisions to improve the 235 reporting system and publish aggregate data annually, starting in FY 1984. But it is unclear whether the Labor Department will be implementing this provision, or whether any changes will enhance the usefulness of the reports for state and area planning purposes. Since in most states the framework for a useful layoff reporting system exists with the 235 system, it may be best for states to initiate improvements rather than relying on federal action. For technical assistance contact: Alan Moss, Office of Labor Information Analysis, U.S Employment Service, 601 D. St., N.W., Room 8018, Washington, DC 20213, (202) 376-6700

B. Exploring Comprehensive State Plant Closing Legislation

Prompted by conditions of citizen action groups, labor unions, and state and local officials, a number of state legislatures now have more comprehensive plant closing proposals pending: California, Connecticut, Delaware, Indiana, Illinois, Maine, Massachusetts, Michigan, Minnesota, Montana, New Jersey, New Hampshire, New York, Ohio, Oregon, Rhode Island, and Wisconsin. Most state bills require six months to two years advance notification of plant shutdowns and major layoffs, severance pay to the terminated workers, assistance payments to the affected community, and extended coverage of health benefits. Some bills also include elements which would encourage employee or community buyouts of closing, but still viable, plants.

Proponents argue that such legislation is not aimed at stopping capital mobility altogether, since no company is legally prohibited from closing or relocating. They state that "the issue rather is one of the proper social velocity of capital mobility. If it is too slow, economic growth is stymied. But if it is too fast (uncoordinated), a massive (and unequally distributed) price is paid in terms of unemployment, income loss, and community abandonment."[15]

For example, advance notification of shutdowns will enable workers to seek other jobs way in advance and public and private retraining programs to be effectively planned and implemented. Likewise, the additional time can give workers or the community the opportunity to revitalize the facility, to locate another buyer, or develop a new employee-owned company. Severance pay provides workers with money to ease the period of joblessness and to sustain local purchasing power. And the local government

15 Barry Bluestone and Bennett Hanson, "The Deindustrialization of America", The Entrepreneurial Economy, November 1982, p. 5.

could use community adjustment fees to maintain public services in the face of falling tax revenues, finance new economic adjustment programs, or place a "down payment" on the closing establishment.

Advocates, furthermore, point out that Maine and Wisconsin have passed weak versions of these laws and contrary to the predictions of opponents, these statutes have not discouraged business investment and growth. Moreover, Canada, France, Sweden, West Germany, and the United Kingdom all require advance notification. American corporations doing business in Europe have prospered and still invest aggressively there.

However, despite these arguments, such legislation is very controversial. Business opposition will be quite strong even if it only covers larger absentee-owned firms. Here, state policymakers must carefully explore the pros and cons of such legislation, examining if some elements of the package are more essential and politically possible than others.

C. Enhancing Human Capital: A Voucher Approach

Yet, another alternative states may want to explore is in the arena of new methods to finance training. During the next decade, investments in human capital will need to increase for economic recovery and to reduce the growing dependence on welfare and other social programs. Economic development will require more extensive and efficient education, training, and retraining of the workforce. The private sector alone cannot meet those needs because the labor market does not send the signals to employers and would-be employees that ensure efficient labor market decisions. Such market failures can only be overcome with public programs that provide information, services, and access to training.

The rising unemployment and declining output of the past few years are not merely a result of a temporary economic recession. According to the National Commission for Employment Policy, the base rate of unemployment has been rising for the last 15 years,[16] starting at less than four percent in the late 1960s. Each succeeding recession has ended with higher unemployment. The President's Council on Economic Advisers now estimates the rate will "plateau" between six and seven percent--meaning six to seven million people will be unemployed even after the current recession ends.

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[16] National Commission for Employment Policy, "An American Employment Policy," April 1983.

Of this group, many are "structurally" unemployed; they do not have the education or skills for jobs in the modern American economy.

These are symptoms of an economy failing to adjust with sufficient speed to technological advances and dramatic shifts in world trade patterns. Today there is increasing demand for educated and skilled employees in the knowledge-intensive industries. Many educators and labor experts believe those now starting a career will have to learn new skills and new occupations much more frequently than their parents. They will need better basic skills just to get into the workforce and will need to invest time and money to acquire new skills to stay employed.

At the same time, advancing technology will likely create many low-level operative and assembly jobs--the kind that are susceptable to being moved abroad. To remain competitive, states, and ultimately the nation, must be prepared to make investments in human capital so that we rely less on easily exportable, low-skilled employment.

A state policy for human capital investment should aim at correcting two major barriers to employment: inadequate information about labor demand and inadequate financing for education and training. The current state of labor market information in this country is very weak, particularly from the perspective of the individual worker, or those who are operating training and placement programs. Most jobs are found through informal information systems--word of mouth from friends, relatives, co-workers. Although progress in improving LMI was beginning during the final years of CETA, much is yet to do.

Secondly, many cannot finance their own education and training. This is partly due to poor information: workers are reluctant to invest family savings in a training course when the demand for the job is uncertain. This is particularly true for the unemployed, including dislocated workers, and the poor, employed or not, who simply lack the money to invest in training and education. A state strategy for investment in human capital must, at a minimum, address these two problems.

One approach that addresses the information and financing problems simultaneously is a voucher-based training and education system, such as one proposed by economist Roger Vaughan. The program would provide all workers--employed and unemployed--with access to education and training vouchers. To allow individuals to make their own informed decisions, information on the type and effectiveness of education and training programs would be made available. Since individuals select where the vouchers are

redeemed, education and training institutions would have to be responsible to the changing demands of employers and employees.

To finance the system, all employers and employees would pay into trust funds--analagous to unemployment insurance funds--to ensure adequate and continuous financing of post-secondary education and training. It could be administered by a board including representatives of business, government and labor. The vouchers could be used to pay for any accredited education or training program, offered by public or private institutions or firms. Information, counseling and other support services would be offered. This system would provide much broader access than at present, but would emphasize the disadvantaged and unskilled population and the working poor. At the same time, it would also serve displaced workers and middle income workers in need of retraining.

The board could use revenues paid into the trust funds for three purposes: (1) to distribute to local schools for secondary and post-secondary vocational education; (2) to distribute to local program offices for voucher redemption and for other local program support; and (3) to pay for the state administered operations, including monitoring the performance of local offices, setting standards, distributing information, and accrediting training programs.

The voucher system is one of many new ideas that states could test now that JTPA has put them in the forefront for developing a strategy for human capital investment. Because of states' traditional responsibilities for education, Unemployment Insurance, and the Employment Service, the addition of JTPA offers an unparallelled opportunity for states to take the lead. In fact, that states in the next few years will quite likely be a testing ground for alternative national policies.

And short of making a complete move toward this system, a state could establish a dedicated fund which would make low interest rate loans to students and those enrolled in training programs. The sale of revenue bonds backed by the repayments of participants could finance the fund. And in the early years, direct state appropriations could cover all costs before recipients begin repayments. Borrowers would repay through a percent of the gross income earned after graduation.

To encourage participation by the poor, the trust fund could make grants (financed directly by state appropriations) equal to at least one-third of the education or training costs of those with income below a set level.

Such a program would greatly aid those who now fall through the cracks of state educational and training efforts, while still encouraging institutions to be more accountable to the changing demands of both employers and employees.

D. Retaining Viable Firms Through Employee Ownership

Not all plant closings can or should be prevented, but employee buyouts and stock participation plans are increasingly sustaining viable firms. State support for employee ownership in some cases has been critical for success.

There are two predominant forms of employee ownership in the U.S. today. These are employee stock ownership plans (ESOPs) and worker cooperatives.

The cooperative form of ownership has several basic traits: only one share can be owned per member; all owners have the right to work in the co-op; and all shares have one vote. These features make a cooperation automatically democratic, while an ESOP can be structured in a range of ways. An ESOP, on the other hand, is a benefit plan for employees. It can be majority or minority-controlled, has a number of fair advantages, and are established in a particular fashion. Consequently, ESOPs, in general, have had a greater success than cooperatives or traditional financing sources.

Several states offer their own additional incentives. Illinois and New York, for example, provide loans and loan guarantees for financing through ESOPs, while California creates a preference in state-supported small business financing programs for firms in 25 percent employee-owned. Several other states have established technical assistance programs. Michigan, for instance, provides the following services:

--evaluation of initial feasibility and economic viability of a proposed employee-owned company;
--technical assistance and counseling services to persons seeking to form an employee-owned company;
--assistance, counseling and training to acquaint employees with background information pertaining to employee ownership;
--promotion and coordination of efforts of local, state, federal and private agencies to assist in formation of an employee-owned company.

A number of studies cite evidence that ESOPs are an effective method of preserving viable firms--and saving jobs--and of increasing productivity. For example, in the last ten years,

about 60 firms have been bought by local management and employees in response to potential plant closures, saving 50,000 jobs directly. Of these firms, only four have since failed. A 1980 survey by the Journal of Corporation Law at the University of Iowa Law School found productivity in 229 ESOP companies higher than the national average. Studies at the Universities of Los Angeles and Michigan also found increased productivity.

The National Center for Employee Ownership recommends that to encourage employee ownership, states can: (1) publicize the employee ownership option; (2) provide technical assistance to various forms of financing; (3) remove any unnecessary obstacles, e.g., revise securities laws; (4) help finance ongoing employee-owned companies; (5) ease employee buy-outs by requiring plant closing pre-notification; and (6) provide preferences in state policies for employee-owned firms.

For further information, contact: Industrial Cooperative Association, 249 Elm Street, Somerville, MA 02144; The National Center for Employee Ownership, 4836 S. 28th Street, Arlington, VA 22206; or the ESOP Association, 1725 DeSales St., Suite 400, Washington, DC 20036.

E. Towards Long-Term Recovery

Retraining and placement programs for displaced workers can be an important part of a state's economic development strategy; yet, at best, they can play only a supporting role. The critical issue facing state policymakers is how to create jobs. A recent Massachusetts Institute of Technology study found that there is currently no more than one available job for every ten job seekers. So, while lack of skills and training remains a barrier to some, in all too many cases, there are simply too few jobs.

Employment programs have focused almost exclusively on the supply side of the labor market, consisting almost exclusively of training and placement. But both logic and evidence suggest that training is only effective to the extent jobs are available. Evaluation of training programs suggests that the success of training programs is closely related to the availability of jobs at the end; unless there is a strategy for securing or creating jobs, placement rates will remain low and any increase in income almost entirely disappears after a year or two.

Similarly we know that low level skills are in surplus, not deficit, in the current economy--and that the surplus is growing. Yet even where authorizing legislation allowed or encouraged training programs to be used in job creation strategies--as in

the provision for the retention of income in the CETA legislation--federal administration discouraged and even prohibited the retention of income and the development of self-sustaining, job-creating projects.

Public service employment, though in part a job creation and opportunity expanding strategy, was always viewed as a transitional program. For one thing, the jobs created are expensive, temporary, and lack public support. Moreover, administrative practice often frustrated attempts to use public service employment to generate more permanent jobs.

Economic development efforts, with few exceptions, have ignored cultivation of indigenous entrepreneurship. Instead, the focus has always been on bricks and mortar projects, and on luring existing businesses and investors into larger scale development projects in, adjacent to, or drawing from low-income areas. Macro-economic policy, meanwhile, has been relatively ineffective in overcoming development barriers--thus tending to lift only those boats already seaworthy and to aid existing, large, and capital-intensive businesses. For example, the Economic Recovery Tax Act of 1981 largely benefited businesses that could take advantage of accelerated depreciation-e.g., the large, profitable, capital-intensive businesses. Similarly, the individual tax measures increased the money potentially available for investment, without doing anything about the institutional obstacles which prevent that money from being invested in new, young, and small firms.

By and large then, traditional economic and social policies have at best ignored--and at worst hindered--the ability of Americans (in particular disadvantaged Americans) to start new businesses or expand young ones.

To address the turmoil and loss of jobs sparked by the major transformations underway in our nation, economic adjustment measures and the retention of still viable firms are not enough. New jobs must be generated and new directions in economic development policy explored. Creative programs are needed in two broad areas: attracting outside firms and stimulating development of new enterprises and expansion of young in-state businesses.

1. Attracting Outside Firms

State governments have a long history of pursuing this strategy, principally through tax incentives and other inducements, labor force training, and infrastructure investments. Recently, however, analysts have begun to question their value.

A number of empirical studies have found scant evidence that tax incentives are decisive in determining where corporations locate facilities; other research suggest that the branching of large corporations only accounts for about half of all jobs created. In addition, there are dangers that efforts to attract outside businesses are a sum-zero game.

However, there are valid reasons why business attraction strategies should remain one element of a state economic development policy. Attracting new firms in a different industrial sector can help to diversify a state's economic base. The improvements that must be made in an area's business climate to pursue such a strategy can enhance a state's comparative advantages, ideally generating more wealth and added economic efficiency for the nation as a whole.

Firms appear to grow where there is a safe, attractive environment, the local labor force possesses requisite skills, and related services and amenities are available. Growth is created not by tax breaks, but by policies that ensure public facilities will be adequate to support growth and are well designed and well maintained; that the work force is well trained; that taxes are equitable, but constrained, and their structure does not inhibit growth; and that regulations do not raise unnecessary hurdles. In fact, it seems likely that the very business environment conducive to the attracting of firms is also helpful to the nurturing of new indigenous enterprises.

2. Fostering New Enterprise Development

States cannot create an adequate supply of jobs only by attempting to attract outside firms or expand the existing business base; they must move ahead in fostering new enterprise development. Indeed, an economy most successfully adjust to change by spawning new businesses. Small and young companies explore new avenues and new combinations of resources more easily, more creatively and at less risk than large institutions.

The evidence of the role of new and young firms is now legion: studies suggest that small companies produce a disproportionate share of technological innovation, and that a dollar invested in small enterprise is 20 times more likely to produce significant innovations as one invested in large companies. Firms with under $5 million in sales or assets show greater returns on investment than all other size classes of firms in the last decade; small firms have provided major entry to the mainstream economy for minorities and women, the major new entrants to the labor force. Small businesses have higher shares of growth in slower-growing regions. And, most important, new and young

firms--enterprises under four years of age--have produced more than half of the new jobs during the last decade.

Small business development as a revitalization strategy is not, of course, without problems. The quality of jobs produced in terms of wage levels, fringe benefits and longevity is often lower than the mean. The closure rate of small business is very high; more than 60 percent of new firms do not see their fifth birthdays, though very few businesses (under 1 percent) fail with loss to creditors.

But these problems represent challenges to develop more adequate support systems, not cautions to avoid the approach. A state entrepreneurial policy should have two major goals: First, it should seek to overcome the capital and other market barriers to the growth of young, high potential firms which will provide the jobs, technologies, products and services of the unfolding future. Second, it should upgrade the nation's human capital, providing retraining and adjustment assistance to displaced older workers and improved education and training to the young, minorities and women who will make up the work force for the upcoming cycle. Indeed, the policy tools in this second area are a logical outgrowth of the economic adjustment strategies described in this paper.

States need to use the Job Training Partnership Act to integrate training into long-term economic development activities. The Title III dislocated worker program, along with recent amendments to the Wagner-Peysner Act and Title II of JTPA, offer several advantages for testing alternative strategies: the funding distribution and service delivery systems are not constrained by statute and are left to the state' option; the matching fund requirement can be used creatively to leverage additional resources and integrate development and training activities; the urgency and visibility of the problems plant closings and mass layoffs cause can engender institutional responses that normally take much longer or not occur; and the relatively small size of the program and the ability to target resources permits the testing of strategies that can be expanded to the state's broader employment training and economic development policies if they prove successful.

VI. Conclusion

Just as the U.S. economy is in the midst of a fundamental transformation, so many long-held assumptions about the state's roles in job training, economic development and aid to workers and communities facing economic decline are going through major reassessment. Policy-makers are realizing that such key factors

in a state's economy as job training and economic development cannot be left purely to the market economy; nor can state initiatives on the issues merely support existing companies and industries.

JTPA offers states the opportunity to address the issues of job training, economic development and worker dislocation. It provides both the funding and the institutional flexibility to effectively tackle these issues as part of an overall state economic plan. By taking the initiative and choosing from the variety of innovative approaches described in the preceding pages, states can both alleviate some of the short-term harmful effects of rapid economic change and build the foundation for long term economic recovery.